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Economic and Social Impacts of Immigration



A research report prepared for the
Economic Council of Canada

1991



Economic and Social Impacts of Immigration

Immigration has been a significant factor in the development of many countries throughout history. It can have both positive and negative impacts on the economy and society.

On the positive side, immigrants often bring new skills, labor, and ideas that can contribute to economic growth and innovation. They can fill labor shortages in certain industries and help to drive demand for goods and services. Immigrants also tend to be younger than the general population, which can help to offset an aging workforce.

However, there can also be negative impacts. Immigrants may compete with native workers for jobs, particularly in low-skilled sectors. They may also put pressure on public services such as healthcare and education. Additionally, some immigrants may bring with them criminal activity or other social problems.

The impact of immigration on a country's economy and society depends on various factors, including the number of immigrants, their skills and education levels, and the policies of the host country. It is important for governments to carefully consider the potential impacts before making decisions about immigration policy.

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Economic and Social Impacts of Immigration

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Foreword

In February, the Economic Council released *New Faces in the Crowd*, a consensus Statement by Council members on the economic and social impacts of immigration. The motivation for that publication was to determine whether it is appropriate to turn to immigration to shore up population growth in Canada, now that birth rates have fallen below replacement levels and the Canadian population is aging.

New Faces in the Crowd has generated much debate since its release. Its findings that the economic gains to the host community from immigration are small have surprised many, and so has the result that immigration hardly ever causes unemployment. Because the economic gains are so small, the report paid considerable attention to the other effects of immigration – the social, the political, and the humanitarian. Some most important and heartening conclusions on social matters were reached – notably that the tolerance of Canadians towards immigrants, including visible-minority immigrants, has been increasing and that greater contact with immigrants diminishes prejudice against them.

This volume presents the details of the Council's research on immigration. It treats in greater depth, and often in more technical terms, the issues highlighted in *New Faces in the Crowd*.

The report is divided into five parts. The first two chapters provide an introduction to the issues and some historical background on immigration policies and on the volume of immigration since Canada's beginnings. The next three chapters deal with the possible implications of a higher level of immigration for the economic welfare of the host community. Three especially important types of impact are examined in Chapters 3, 4, and 5: economic efficiency within the host community, which determines the income that individuals in the community can earn; the burden of taxes and dependency; and the level of unemployment.

Chapter 6 then evaluates some important potential effects of immigration. Covered here are matters such as the economic power of the nation in the international community and the distribution of that power among the provinces and municipalities.

In Chapters 7 and 8, the report considers the humanitarian dimension of immigration – that is, the experience of the newcomers. Particular emphasis is placed, in Chapter 7, upon whether immigrants adjust successfully to the labour market, in terms both of finding jobs and of attaining in those jobs a level of earnings commensurate with their qualifications. Chapter 8 focuses on the special case of refugees.

In Chapters 9 and 10, we move on to an assessment of the impact of higher levels of immigration on the social well-being of the host community. Chapter 9 focuses on levels of tolerance and prejudice in that community, on what influences them, and on what role the size of the immigrant community plays, particularly the visible minorities within it. In

Chapter 10, we examine the pros and cons of the increased level of diversity that will come about naturally whether immigration remains at its present level or is increased.

Finally, in Chapter 11, the report draws the threads together. Weighing together four types of considerations – economic, political, humanitarian, and social – the Council arrives at the series of recommendations already presented in *New Faces in the Crowd*.

The research presented in *New Faces in the Crowd* and in this companion report is the product of many studies done both by the Economic Council's staff and by outside researchers (the authors of individual chapters are named at the back of the report). The results yield, I believe, a new and valuable perspective on the role that immigration can and should play over the next 25 years in Canada.

The research team, led by Neil Swan, was supported by an Advisory Committee consisting of three Council members and six outside experts. I would like to thank the committee – and particularly Chester Johnson, who chaired it – for its contribution to our research.

Judith Maxwell
Chairman

Economic and Social Impacts of Immigration

READER'S NOTE

The reader should note that various conventional symbols similar to those used by Statistics Canada have been used in the tables:

- . . figures not available
- . . . figures not appropriate or not applicable
- amount too small to be expressed
- nil or zero.

Details may not add up to totals because of rounding.

A list of references will be found at the end of the report.

1 Introduction

The fall in the Canadian birth rate in recent years has triggered much debate about the possibility of using immigration to maintain the country's population growth.

Those who think it should be so used are implicitly making two assumptions. One is that population growth is desirable. The other is that immigration would be a good substitute for natural increase as a source of such growth. In this report, we assess whether those assumptions are correct. We also assess whether a change in the level of immigration over the long haul would be a good idea on its own merits, even if the Canadian birth rate were not declining.

At the same time, many Canadians, including some who favour more immigration, are concerned about its effects on unemployment, on government expenditures – especially in the case of refugees – and on the social fabric of Canada. We also take a critical look at these issues and examine the evidence in an attempt to discover whether the concerns are legitimate.

In the course of the research that led to this report, we tried out some preliminary ideas on a wide range of audiences and individuals. That experience showed us that perceptions about immigration vary widely, are strongly held, and can inhibit rational discourse on the topic unless they are openly acknowledged and discussed at the outset.

Perceptions

Those who favour immigration point out that without immigrants Canada as we know it would not exist; they assert that the land is still vast, empty, and in need of people. The larger markets that immigration brings generate increases in efficiency through the exploitation of economies of scale. Businesses prosper as markets expand to the benefit of all – including the immigrants themselves, many of whom do extremely well. Success stories are legion: pharmacy businesses built up from nothing in Alberta by Vietnamese refugees; acres of fruit and vegetable farms run by immigrants in British Columbia; huge multinational enterprises founded by newcomers from Eastern Europe; Nobel prize winners in our universities; nurses in our hospitals; and hundreds of thousands of ordinary people – men and

women from every corner of the globe – making a new and successful life in our country.

More than just economics is involved. Immigration makes the nation larger and more powerful – not an unworthy aim when citizens take pride in their country. Moreover, many Canadians greatly value the humanitarian aspect of our immigration policy. That is not simply a matter of the country being a haven for refugees, vitally important though that function is. Most immigrants better their lot by coming here, and many of those who are not political refugees are “economic” refugees, leaving behind hardships that we may comprehend intellectually but whose emotional impact we are unable to experience.

Immigrants and immigration are, in fact, at the very core of our vision of Canadian society. The great majority of us have immigrant ancestors or are immigrants ourselves. The ethnic diversity of the country, its deep civility despite – or because of – that very diversity, and the richness of the many cultures it encompasses are, for many of its residents, grounds for pride and symbolic of what it means to be a Canadian. Moreover, Canada has a long tradition of exerting such power and influence as it has on the world stage in the furtherance of the goals of tolerance and peace. It is not a conceit to say that our nation has acquired a solid reputation abroad in this regard. Immigration helps in the continuance of that role by acting as a symbol of the very openness and tolerance that Canadians see themselves as championing.

The list of the advantages of immigration is formidable. Even so, we have found that many people are sceptical about the overall benefits of immigration. They caution about some serious problems and risks. A prime concern, expressed repeatedly to us, is that immigrants will often take jobs away from Canadians.

Competition in the labour market is the major economic concern but not the only one. There is also a worry that the costs of settlement for immigrants appear to have been mounting sharply in recent years, with a concomitant burden on the taxpayer at a time of serious government deficits. Several factors, which will be treated in greater detail later on, are thought to underlie the cost increases. Language training is one, more widespread and more expensive than

in the past, for reasons traceable to the changing mix of immigrants and to the decision of Canadian governments to fund such training. Among the other factors are the growing settlement costs for immigrants on arrival, with welfare costs, notably in the case of refugees, playing a significant part. This problem is especially acute in Toronto, Vancouver, and Montreal – the three cities that, together, take a substantial portion of all immigrants. Recent court decisions making the Charter of Rights applicable to all who are in Canada, irrespective of citizenship or immigrant status, are thought to have increased further the cost burden imposed by immigration.

There are social concerns too. Diversity and multiculturalism, both of which are increasing steadily as immigration from nontraditional sources grows relative to traditional sources, are not seen by everybody as an unqualified good. Some people worry about whether a more diverse, multicultural society poses a threat to cherished Canadian values, such as community and volunteer work, tolerance, the separation of church and state, equality of the sexes, respect for peace and good order, and the preservation of French in Quebec. They also worry about whether our society is tolerant enough to accept a significantly increased proportion of new immigrant groups, especially visible minorities, without triggering social and even racial conflicts.

Thus, in both English and French Canada many people who are not in the least racist are clearly concerned that, even at the present level of immigration – and all the more so at any increased level – first, a threat will be posed to the survival of core Canadian values; and, second, the society is not tolerant enough to accept a much higher proportion of visible minorities. Perhaps some will think we are exaggerating a little; perhaps we are, in fact, in order to make the point. It is our impression, however, that people are often unwilling to express genuine fears about threats to Canadian values and social peace, lest they be accused of racism. It is true that the expression of such fears is sometimes a cloak for racism, but we believe that the concern is often genuine, whether or not it is justified.

A last set of concerns relates to the perception that the immigration system is not entirely under control and that the situation could worsen if more immigration is permitted. The problem pertains particularly to refugees and persons claiming refugee status. The sense of fair play, which is important to many Canadians, is violated by the queue-jumping and cheating that are seen as occurring. We have heard concerns, too, that criminal elements slip through the selection process, creating problems of maintaining law and order, particularly in the country's three largest cities, which tend to attract large numbers of immigrants.

Four Lessons

Four lessons can be drawn from this brief discussion of perceptions about immigration. First, immigration is patently not a straightforward, noncontroversial substitute for natural increase as a method for increasing Canada's population. It arouses a mixture of reactions and emotions among Canadians. That is simply because immigrants are foreigners – and, at least at first, are viewed as such – in a way that our own children can never be. It follows that in evaluating the social impact of immigration, we need to distinguish sharply between its effect on immigrants themselves and that on the host community, while acknowledging that, once here, immigrants become part of the host community.

Second, the shift in the origin of immigrants in recent years itself makes a difference. Immigrants are now drawn much more heavily from Asia, Africa, the Caribbean, and Latin America than used to be the case – and correspondingly less from the more traditional European sources. That trend is unlikely to change. It means that immigration is changing the nature of Canadian society; an increase in immigration would change it even further. In this respect, too, immigration is not a straightforward substitute for population growth through natural increase.

Third, the geographic concentration of immigrants, especially in Canada's three largest cities – Toronto, Vancouver, and Montreal – again makes immigration as a source of population growth very different from natural increase.

Fourth, it is very clear that a proper evaluation of immigration is not possible if we consider only its economic effects. Important social issues are at stake as well. A balanced treatment must take account of both dimensions of the human condition.

We have outlined above certain perceptions of immigration without commenting on whether they correspond to reality. Needless to say, it is important to know whether they do. Is it true or not, for example, that immigrants cause unemployment? Are there significant economic gains from the enlargement of the domestic market that immigration permits? Are we witnessing a rise in welfare and other costs associated with immigrants? Does the growing diversity associated with immigration imply a significant erosion of traditional Canadian values? Or does it, instead, offer a golden opportunity to build a more exciting society? Does that growing diversity really pose a significantly heightened risk of social frictions?

Our Approach

The four lessons just outlined, and the question of whether perceptions correspond to reality, have played a major role in determining the methodology followed in the rest of this report. They explain why we have taken certain approaches that may strike some readers as unorthodox, even though they are not viewed as such among professional workers in the field. For example, our focus as the Economic Council of Canada must properly be as much on the effects that immigration has on people who are already here as on the benefits that immigrants obtain from moving to this country. It is true that immigrants become hosts once they are here and that, as a result, the demarcation between hosts and newcomers is a fluid one. It remains a valuable distinction nonetheless – one that we have found critical when focusing on many important questions.

We have also given considerable weight in our research to the noneconomic effects of immigration. The reasons for this warrant further elaboration. Before starting our work, we commissioned a preliminary investigation of what other workers in the field had done on the economic benefits of immigration in both Canada and Australia. It turned out that nearly all of the previous work had concluded that the economic benefits to the host community were very minor, possibly even negative. This was an unexpected finding to us and, it seems, to many other people. At the same time, the implications were profound. If the economic gains from immigration were indeed negligible or even negative, then other factors, such as the social and political implications of immigration, would have to play a more important role in any decision about whether to increase it – the very question raised in this report. That is why, although we are an *economic council*, with limited expertise

in sociology and social psychology, we undertook to commission work in those areas as part of our research on immigration.

As in all of the Council's past publications, we adopt the position that perceptions matter but evidence matters more, if the two happen to be in conflict. This naturally raises the usual difficulty that evidence in the social sciences is seldom definitive. Nevertheless, we have drawn conclusions from the evidence that we have amassed, being careful not to let our own biases creep in.

Our recommendations, while based on our analysis, still required a strong admixture of judgment. That is not only because social science, while useful, is fallible. It is also intrinsic to the particular problem at hand: it is simply impossible to calculate a single number that would measure the net sum, positive or negative, of the advantages and disadvantages of immigration to the host community. The effect of varying levels of immigration on several specific measures of well-being of the host community can be assessed, albeit imperfectly, on a one-by-one basis. Thus we can try and estimate what the effects of more immigration would be on the per-capita income of the hosts, on the unemployment rate, on the risk of social friction, on the benefits of diversity, and so on. But even if each of these individual effects could be measured satisfactorily, the total effect would perchance remain a matter of subjective judgment. The individual effects cannot simply be added to generate a single index that would measure the overall net benefits of immigration. In short, the benefits, costs, and risks of immigration can undoubtedly be quantified, but because such measurements are inevitably subject to varying interpretations, final judgments about immigration must be intrinsically qualitative.

2 Immigration and Canada's Economic Development: A Short History

For many decades, Canada's immigration policy reflected concerns about population growth, the ethnic composition of the immigrant population, and the impact of immigration on the economy. In this chapter, we glance at the history of immigration and settlement in this country, as we believe it may provide some initial insights into several issues that will be examined in subsequent chapters – into how much immigrant flows have varied over the years, how they have affected Canada's population growth, and how they have been linked to its economic development and immigration policies.

Early History

Canada was settled from abroad. In prehistoric times – probably some 10,000 to 15,000 years ago, towards the end of the last ice age – settlers came from Asia across the land bridge of the Bering Strait [Harris 1987, I, p. 1]. Part of this first wave of immigrants made its way to Central and South America, where it evolved into the great civilizations of Mexico and of the Andean region; further north, the descendants of the first wave became the North American “Indians,” who also developed very distinctive cultures. A second wave (probably some time before 2000 B.C.) brought to this continent the ancestors of the present-day Inuit and Aleuts [McGhee 1987, p. 350]. The rich culture and way of life of these first immigrants was the “prime ethnic fact of prehistoric Canada” [Creighton 1974, p. 10].

Towards the end of the 10th century A.D., the Vikings of Norway and Denmark embarked on voyages that would take them across the North Atlantic. Along their route, they found Iceland and Greenland, and from there they reached North America in the year 1000 or shortly thereafter. They touched Labrador and the northern tip of Newfoundland, where they settled temporarily or even only sporadically, for perhaps no more than 20 or 30 years [Pitt 1987, p. 1]. Evidence of later explorations (in the 14th century) by the Vikings has been found, but those settlements were no more permanent than the earlier ones.

The spirit of adventure of the Norsemen also caught other Europeans. It is believed that whalers and fishermen – from Spain, France, Portugal, and England – visited the coasts of Labrador, the Strait of Belle Isle, and Newfoundland

almost continuously from the 11th to the 15th centuries. While it is known that John Cabot's voyage of 1497 brought him to North America, it is uncertain whether he made landfall in Labrador, Newfoundland, or Cape Breton Island. An attempt at colonization was made in Newfoundland at the beginning of the 16th century, but that settlement did not last.

The French sought to colonize the St. Lawrence River valley in the early 1540s, following the explorations of Jacques Cartier, and small outposts of the fur trade were set up at Tadoussac, Stadacona (near present-day Québec), and Hochelaga (Montreal). These efforts were thwarted by the harsh climate, disease, and Indian attacks, however, and the would-be colonists soon returned to France. The first permanent French settlement was established only in 1608, at Québec; 26 years later, a second one was founded at Trois-Rivières.

In 1627, the Compagnie des Cent-Associés was given the right to control the French fur trade in Canada and, as part of the agreement, brought in several hundred settlers within a few years. Although many of them eventually returned to Europe, French agricultural settlements under the “seigniorial” system began to grow along the river.

In the meantime, a small English settlement had been established on the Avalon Peninsula in Newfoundland, made up of about 350 families by 1650. Small settlements also appeared along the coast on the mainland. As the European market for fur steadily expanded, the trade in animal pelts became a very profitable business. Settlers who had originally come as fishermen soon moved westward and became fur traders. Unlike the fisheries, the fur trade was not a local but a continental activity that required large-scale organization. It expanded rapidly during the 17th century and carried European influences across the continent to the Pacific, far in advance of settlement and political control.

The demand for fur fluctuated with the whims of fashion and the fortunes of the European nations. Only the monopoly power of the large fur-trading companies could counteract these erratic forces and keep prices up. Because greater competition could bring their market power to an end, the trading companies were opposed to immigration and settlement.

It was probably with respect to immigration that the timber industry stood in sharpest contrast with the fur industry. Whereas the fur trade, because of monopoly power, delayed settlement by immigrants, the timber trade accelerated it. By the middle of the 17th century, shifting political alliances meant that precarious supply lines from the countries around the Baltic Sea could be cut off at any time, and Britain was looking for an alternative source of timber for its shipbuilding industry. The huge white pines, growing in a wide belt from the coastal regions of Nova Scotia and New Brunswick to the drainage basin of the St. Lawrence and Ottawa rivers, were particularly valuable as they were ideal for the masts and spars of the British sailing ships. The first shipments reached British dockyards in 1653. In later years, maritime trade and shipbuilding took over as the main industries.

Under the impetus of these commercial developments, a steady flow of immigrants from the British Isles made their way to the area. Most of them were Highland Scots and southern Irish. Unlike other immigrant groups, they were ill-prepared for farming and preferred to make their living as fishermen, lumberjacks, or labourers. Gradually, however, with better farming techniques and an improved road system, the agricultural land under cultivation expanded; by 1850, it reached nearly the size it has today. But it was the shipbuilding industry that made for the spectacular growth of Nova Scotia and New Brunswick during the early part of the 19th century. With easy access to excellent timber, even the smallest outport had a shipyard, as both regions rivalled in number and tonnage of ships built [Easterbrook and Aitken 1988].

Unlike the pattern observed in the Atlantic region, timber making along the St. Lawrence River and the lower Great Lakes followed agricultural settlement. The early settlers saw the forest as a barrier to farming. They cut the forest, broke the land, and sold the wood for whatever price it fetched on the market. And if there was no market, they used the trunks to fence their pastures; they burnt the brush, let it rot, or plowed it under. Others established their farms near lumbering areas, worked on the farm for part of the year, and sold their produce to the logging camps at a good price.

In areas where the soil was rich, land clearing was quite independent of timber cutting. Immigrants who came without capital hired themselves out as labourers on farms, in the lumber industry, or in canal construction. After they had saved enough money, they bought an uncleared lot or started sharecropping, and eventually farmed on their own. Those who came with some capital usually purchased some land at once, lived on their savings for two or three years, broke the land, and soon marketed their first crops. And

then there were those who arrived with substantial capital, immediately bought a farm, paid for having it cleared, and started selling crops.

By the 1830s, land in the backwoods sold from two to three shillings an acre, but in Upper Canada a tract of good land went for at least a pound per acre; in the thickly populated Niagara district, a partially cleared farm would sell for four to five pounds per acre. Many of the immigrants came to join their kinsfolk or friends who were already established. And some brought with them considerable sums of money – as much as half a million pounds, according to official immigration reports [Easterbrook and Aitken 1988].

Throughout this early period, there was a considerable difference between the patterns of French and English immigration to Canada. The first census of New France, in 1666, showed that the number of European settlers stood at 3,215 (the size of the native population at that time has been “guesstimated” at 100,000). While more settlers were brought in after that date, immigration from France slowed down to a trickle in the latter part of the 17th century. However, the high natural growth rate enabled the region’s population to double in less than 30 years. By the mid-18th century, *habitants* in New France numbered 70,000, and it has been estimated that they descended from fewer than 10,000 original immigrants. By 1825, the total population of Lower Canada – the former New France and the future Quebec – had grown to about 480,000.

Thus, whereas most of the immigration of French settlers took place within a few decades in the early part of the colonization of Canada, English settlers came here in smaller numbers at the beginning, and the increase in their numbers was steadier and spread over a longer period of time.

By far the majority of immigrants during the 19th century went to Upper Canada (now Ontario), and they were English-speaking. From 1825 to 1850, the population of Upper Canada rose from approximately 160,000 to 790,000, with immigration playing the dominant role in that increase. During the same period, the population of Lower Canada rose much more slowly – from 480,000 to 840,000 – mostly through natural increase. By 1852, Upper Canada’s population exceeded that of Lower Canada.

Over the same period – a period that has often been called the “golden age” of the region – the population of Nova Scotia and New Brunswick grew by roughly 160 per cent. Times were prosperous, and the outlook was bright. The winds of competition from industrialization elsewhere in Canada would not hit the Maritimes until after Confederation.

From Confederation to World War I

In 1864, delegates from New Brunswick, Nova Scotia, and Prince Edward Island met in Charlottetown to discuss the formation of a maritime confederation. Faced with the threat of competition from the U.S. fisheries and with the desire among the other colonies of British North America to secure free trade and to complete the Intercolonial Railway system, the three maritime colonies first opted for a local confederation. Later, on the initiative of leaders from central Canada, the proposal was widened, and delegates from Upper and Lower Canada joined the maritime politicians and proposed a confederation of the British provinces of North America. The delegates met again later in 1864 in Quebec. They drew up a plan for confederation that led to the creation of the Dominion of Canada.

From 1867 to the mid-1890s

On 1 July 1867, Ontario, Quebec, New Brunswick, and Nova Scotia became the original provinces of the Dominion of Canada. Of the 3.5 million people who lived in British North America at that time, only about 100,000 lived west

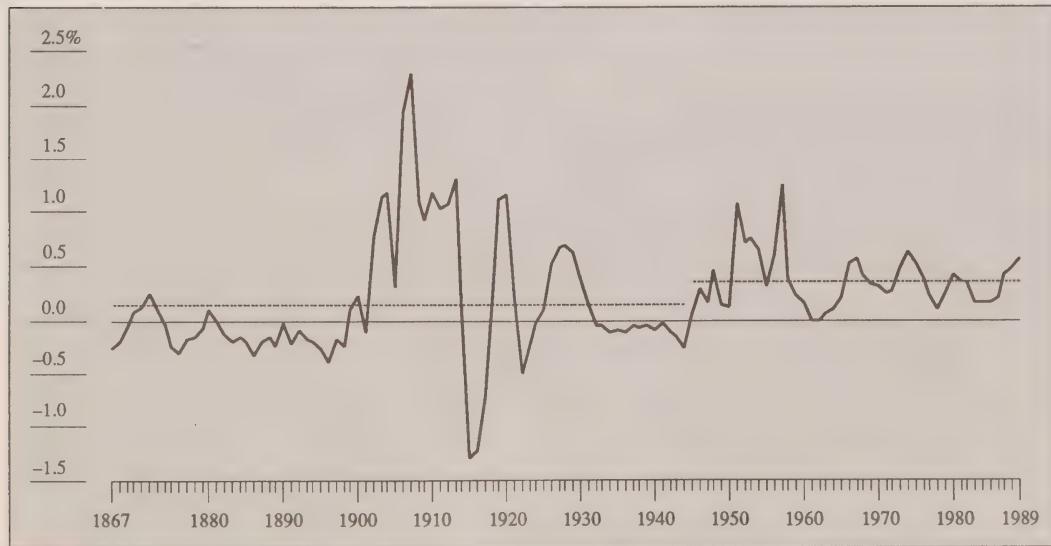
of Ontario, in regions that would join the dominion during the decades that followed.

Census data for 1871 show that Canada was making some progress in industrialization. The manufacturing sector had expanded and had become more diversified. An important textile industry had developed, and the beginnings of a steel and farm-implement industry had been made. But it was also a period of very unsettled economic conditions. The tight money markets that followed the Vienna and New York financial crashes of 1873 hampered capital investments. Global and domestic market prices dropped, and the ensuing decline – sometimes referred to as “the great depression of the 19th century” – cast a deep shadow over most of the period to 1896.

Because of the unfavourable economic conditions in Canada and of the stronger economic growth that followed the Civil War in the United States, the flow of immigrants into Canada was very slow (Chart 2-1). Settlement and cultivation of farmland proceeded at a very moderate pace, despite the high rates of capital investment in the construction of railways. There were formidable obstacles that impinged upon the daily life of the settlers; the lack of roads, the harsh winters, and the shortage of funds made farming

Chart 2-1

Net Immigration as a Percentage of Population, Canada, 1867-1989



SOURCE Based on data from Statistics Canada and Employment and Immigration Canada.

a struggle for bare existence. At a time when other countries were offering such bonuses as free passage, a grant of land, agricultural implements, and loans for building homesteads, much of Canada's best farming land was held by speculators, and the Canadian government offered very limited financial assistance to immigrants [MacDonald 1966].

As a result, many immigrants to Canada remained here only temporarily. Indeed, during the first three decades of Confederation, the rate of emigration exceeded the rate of immigration in 25 out of 30 years (Chart 2-2). What is not clearly established, however, is the extent to which the emigrants were native-born Canadians or immigrants from abroad who had decided to move on. Nevertheless, the Canadian population kept growing: while Canada lost roughly 180,000 people through emigration, it gained some 1.8 million through natural growth. Thus, in Canada's first 30 years as a nation, immigration was nearly irrelevant as a demographic factor (Chart 2-3).

Living standards improved despite the loss in net migration. Between 1870 and 1890, per-capita consumer expenditures increased by over 40 per cent. In manufacturing, real wage rates rose by more than 40 per cent. The housing stock

increased from roughly 550,000 in 1867 to 950,000 in 1896, and at the same time the number of persons per dwelling decreased from 6.2 to 5.4. Access to hospitals and health services improved, as the number of physicians and surgeons per thousand inhabitants grew by about 10 per cent; the number of dentists relative to the population also doubled [Firestone 1958].

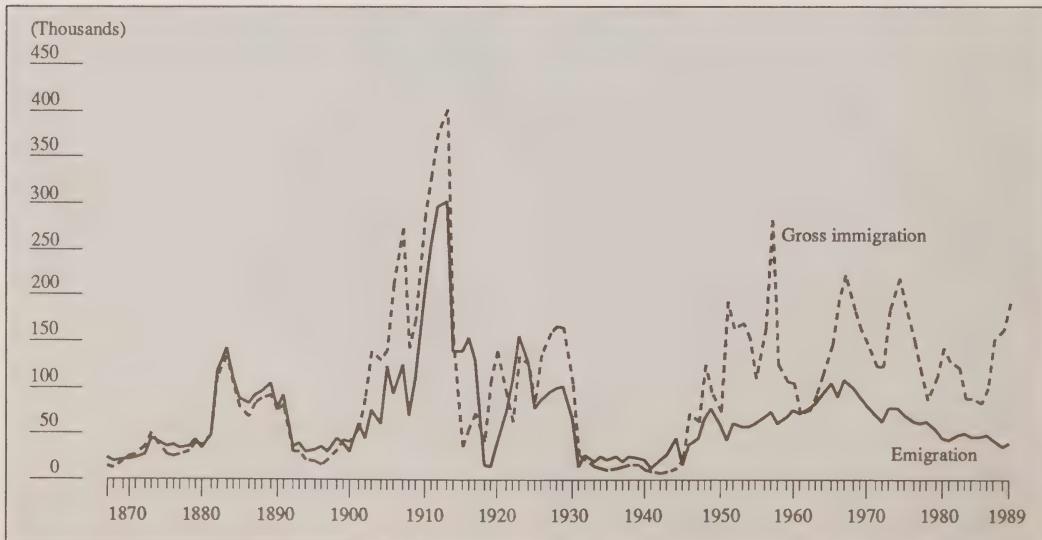
Some of this improvement was associated with the construction of the railways – the major technological innovation of the time. As we shall see in Chapter 3, investment and technological change are everywhere the key sources of per-capita income growth. Whereas less than 3,000 miles of track had been laid by 1867, over 15,000 miles of track were in operation three decades later. Manufacturing output doubled, and the volume of domestic exports – mainly planks and boards, cheese, and cattle – increased from \$60 million to over \$100 million.

From 1896 to 1914

By the mid-1890s, Canada was ready to take full advantage of the upturn in economic conditions abroad. The principal goals of the Confederation had been met; the

Chart 2-2

Gross Immigration and Emigration, Canada, 1867-1989



framework and institutions for economic growth were in place. The tariff protection under the National Policy had benefited the infant manufacturing sector. The first transcontinental railway was completed along an all-Canadian route. And the growing prosperity in Europe and in the United States, the discovery of gold in the Klondike in 1896, and the expansion in international trade signalled the beginning of a period of much more rapid population growth for Canada. It was not that Canada needed more immigrants in order to grow but that it attracted more immigrants as it was growing.

By 1896, much of the farmland in the United States had been settled, but in the Canadian West sweeping stretches of excellent farmland had not yet been cultivated. Higher prices on world markets made it very profitable for Canada to expand wheat production. The first arrivals on the new frontier were farmers who came from other regions of Canada and from the United States. They had the experience and knowledge of a similar environment. The newly built transcontinental railway provided them with easy access. As transportation costs continued to decline, many more farmers left eastern Canada to homestead in the western regions. Immigrants poured in, at times preceded, and at times followed, by additional branch lines. The

Canadian prairie proved to be the natural growing region for high-quality wheat. It seemed destined to become the "breadbasket of the world."

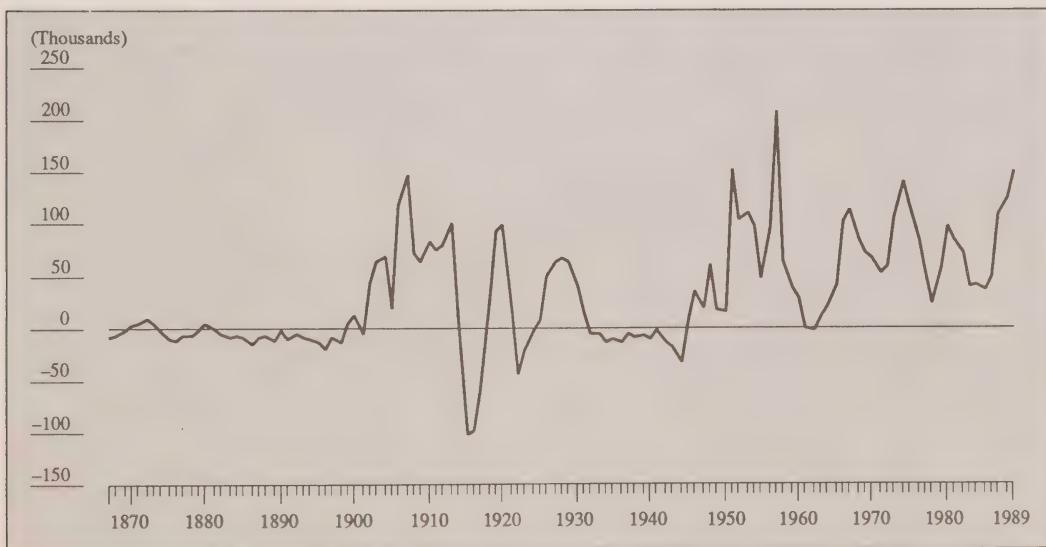
The number of immigrants increased year after year – from an annual rate of 22,000 in 1897 to an intermediate peak of 272,000 in 1907, and thereafter to an all-time high of 401,000 in 1913. Although the rates of net immigration – i.e., the annual numbers of immigrants minus emigrants – were much lower, at their peak they exceeded 100,000 annually, a level that would not be reached for another 38 years.

Thus after three decades of net emigration since Confederation, there was a sudden and prolonged surge of immigration. One response was to modify the initially nonrestrictive immigration policy. Elements of restriction were introduced in the legislation from the 1880s onward, first directed against the Chinese and later against all nonwhite immigrants.

Clifford Sifton, Minister of the Interior in the Laurier government (from 1896 to 1905), was the chief planner and promoter of this immigration. His campaigns concentrated on American settlers and on those from northern England

Chart 2-3

Net Immigration, Canada, 1867-1989



SOURCE Based on data from Statistics Canada.

and Scotland. He did not want artisans or shopkeepers but the very best farmers to settle the West. He also encouraged “agriculturists” from continental Europe and was quoted as having said: “We paid, I think, \$5,000 per head for the farmer and \$2,000 per head for the other members of the family.” His department mass-produced popular pamphlets, advertising “Canada as the Land of Opportunity,” the “Canadian West,” “The Last Best West,” and “Canada, the Land of the Prairies” [Hawkins 1989, pp. 5-6].

All immigrants, except “negroes” and Chinese, were warmly welcomed by Sifton and the Laurier government, and given every assistance. Although no law was passed to exclude black immigrants, careful screening prevented them from entering. Others in Canada were even more concerned about ethnic matters, even among white immigrants. While Sifton believed that his plan of western settlement was good for Canada, his critics accused him of admitting “illiterate Slavs in overwhelming numbers.” At that time, newcomers from Russia, the Ukraine, Poland, and other areas of eastern Europe accounted for some 20 per cent of all immigrants (Chart 2-4).

Nor did Frank Oliver, Sifton’s successor as Minister of the Interior, fully support his plan:

... there is nothing [the Westerners] more earnestly resent than the idea of settling the country with people who will be a drag on our civilization and progress. We did not go out to that country simply to produce wheat. We went to build up a nation, a civilization, a social system that we could enjoy, be proud of and transmit to our children; and we resent the idea of having the millstone of this Slav population hung around our necks in our efforts to build up, beautify and improve the country, and so improve the whole of Canada [quoted in Hawkins 1989, p. 8].

Not surprisingly, perhaps, two new Acts, introduced by Oliver and passed in 1906 and 1910, respectively, greatly increased the powers of immigration officers to reject “undesirable elements.”

Record numbers of immigrants entered Canada between 1902 and 1914, with the annual figure climbing steadily from 100,000 to 153,000 over the period; the natural increase of population was even higher than the rate of net immigration. As a result, Canada’s economy grew rapidly in aggregate size. Between 1890 and 1910, gross national product grew at an average annual rate of about 4 per cent. As waves of immigrants swept across the western prairie and as new land was put under cultivation, Canadian wheat production more than tripled. The railway network, which extended over 18,000 miles at the turn of the century, reached over 30,000 miles in 1914 [Firestone 1958].

Although the Canadian economy expanded at a dramatic rate between 1890 and 1910, the improvement in the living standard was slow. Essential expenditures on food, shelter, and clothing continued to absorb 60 per cent of consumer incomes. Measured in real terms, per-capita consumption increased at an average annual rate of only 1.6 per cent. This rate was actually slightly lower than the 1.8 per cent recorded for the preceding two decades, a period of net emigration and considerably slower population growth.

Thus, while the high rates of immigration and the rapid natural population growth did not translate into a faster growth of per-capita incomes, neither did they appear to significantly slow down that growth. Historically, growth in population and growth in living standard do not seem to have been closely correlated.

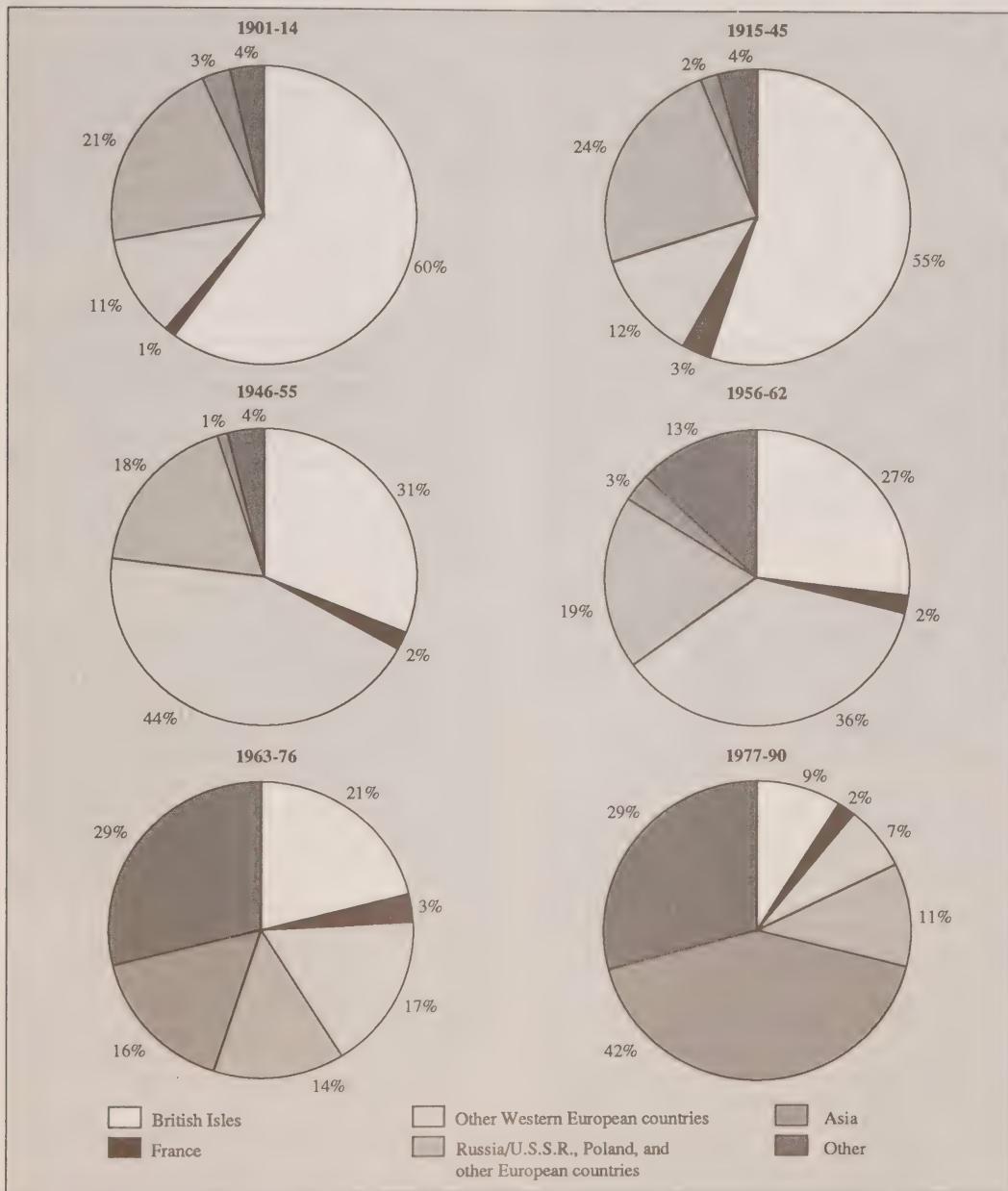
The Interwar Period

World War I and the Early Postwar Years

With the outbreak of the First World War, the flow of immigrants diminished sharply. From an all-time high of 401,000 immigrants in 1913, it dropped to a low of 37,000 in 1915. During the first three years of the war, 166,000 immigrants landed in Canada, while 424,000 people left the country. Net migration to Canada turned positive again after the United States joined in the allied war effort in 1917.

After the war, the strong overseas demand for food resulted in a further expansion of agriculture. Canada’s farming area increased from roughly 110 million acres in 1910 to 140 million acres in 1920. At the same time, the development and rapid adoption of a new variety of wheat (known as “Marquis wheat”) lessened the hazards of rust and early frost in the Prairie provinces. Combined with a higher price on world markets, this improvement caused the value of Canada’s wheat production to more than triple. By 1920, wheat and wheat flour, of little significance in exports during the earlier decades, exceeded 20 per cent of Canada’s total exports and topped all other export commodities. As part of total production, however, agriculture was beginning to decline [Firestone 1958].

World War I changed Canada’s industrial structure. For the first half-century after Confederation, agriculture had outstripped manufacturing production by a wide margin. During the war, however, their respective importance was reversed. After the hostilities ended, international competition and the postwar recession of 1921 forced prices down. Adjusting successfully, Canadian industries diversified into

Chart 2-4**Distribution of Immigrants by Origin, Canada, 1901-90**

SOURCE Estimates by the Economic Council, based on data from Statistics Canada.

pulp and paper, transportation equipment, and chemicals; raised their productivity; and exported more. While Canada's industrial output greatly expanded during the postwar years, prices declined. Because of this adverse development, there was no significant change in real per-capita incomes between 1910 and 1930.

The desire of many Europeans to leave their war-torn countries helped carry the momentum of land settlement past the end of World War I. In the meantime, the Immigration Act of 1910 had been amended. Would-be immigrants who had formerly been discriminated against informally could now be excluded formally because of their racial origin, their nationality, or occupation, or because they were deemed to be unsuitable for other reasons. Following this amendment, several orders-in-council were adopted, the most important of which being that anyone of the "Asiatic race" was prevented from immigrating into Canada. Agriculturists, farm labourers, female domestic servants, or the wife and children of legal residents of Canada were excepted from this regulation, however. Probably as a result of these restrictions, the relative numbers of Asians declined from 3.3 per cent during the period 1901-14 to 1.6 per cent during the period 1915-45 (see Chart 2-4).

From 1919 to 1930, 1.5 million immigrants arrived in Canada, but over a million people left, mostly for the United States, resulting in a net immigration of 434,000 (see Charts 2-2 and 2-3).

The Great Depression and World War II

After the industrial expansion of the 1920s, North America was hit by the Great Depression in the 1930s. Within three years, Canada's gross national product dropped by 43 per cent. After a sluggish recovery, the economy stuttered along, but it was not until 1939 – a decade after the initial downturn – that it reached its pre-Depression level.

When the economic crisis struck, the Canadian government took immediate steps to limit the volume of immigration. On 18 March 1931, the entry of immigrants of all classes and occupations was prohibited by order-in-council unless immigrants could provide proof that they were British subjects or citizens of the United States and that they had sufficient means to maintain themselves until employment was secured. Certain other categories of people were also allowed to immigrate – the next of kin of legal Canadian residents, for example, or "agriculturists" who had sufficient

means to farm in Canada – but the earlier exceptions granted to people of Asian origin were revoked, barring the arrival of not only new immigrants but also the wives and children of those who were already here [Green 1976].

With the application of the order-in-council and the economic woes of the Depression, immigration to Canada became a mere trickle. From 105,000 in 1930, the number of newcomers fell to 14,000 in 1933; with minor annual variations, it remained approximately at that level right up to the end of World War II. Over the same period, some 20,000 people left Canada annually. For 13 consecutive years, from 1932 to 1944, Canada's international net migration was negative.

The Second World War had an enormous impact on the Canadian economy. The country's industrial output, which had grown by some 10 per cent during the Great War, increased by roughly 70 per cent during the period 1939-45. Productivity, as measured by the volume of output per worker, improved by 30 per cent during that period – a growth rate that dwarfed that of any preceding five-year period since Confederation. While the First World War had stimulated Canada's industrialization over a rather narrow range of industries, with agriculture still being the dominant sector of employment, the Second World War had an all-pervasive impact on industrial production [Firestone 1958].

The output of manufacturing expanded dramatically. Measured in purely physical terms, the production of steel, for example, increased by 120 per cent and that of aluminum, by 500 per cent; the production of synthetic rubber, starting with 3,000 tons in 1943, reached a peak of 45,000 tons in 1945. Measured in dollar terms, production doubled in the food and beverage industry, in textiles and clothing, and in wood products; it tripled in the steel industry and in chemicals and allied products. Exports of manufactured goods jumped from \$650 million in 1939 to \$2.4 billion in 1945, and the share of those exports in the gross value of Canadian production went up from 19 to 29 per cent.

From World War II to the Present

The Early Postwar Years, 1946-57

Contrary to the predictions of experts at the time, the Canadian economy continued to expand after the war. After an initial two-year decline, the release of pent-up consumer demand, a renewed export demand – supported by government loans and aid to European countries – and a much

more diversified industrial structure made for a strong economic recovery. Immigrants from Europe arrived in increasing numbers. Capital investment accelerated. By the early 1950s, the aggregate output of the Canadian economy advanced at annual rates in excess of 5 per cent.

Because of the low rates of natural population growth during the years of the Depression, the domestic labour force had grown very slowly. In 1947, the Canadian government reappraised its prewar immigration policy. The new policy allowed more immigrants to enter, first by widening sponsorship privileges, then by expanding the range of admissible occupations and giving most-preferred-country status – i.e., admission regardless of trade or skill level – to immigrants from France (1948) and several other European countries (1950). This encouraged immigration and, at the same time, provided for the careful selection and permanent settlement of such numbers of immigrants as could be readily absorbed in Canada's economy.

Social absorption was considered to require being similar to Canadians – i.e., to white Canadians of western European stock. The policy was frankly racist. Under the "most-preferred-country status," immigrants needed only be in good health, to be of good moral character, and to possess sufficient means to maintain themselves for a reasonable period of time. This interpretation applied to nationals from Belgium, Luxembourg, Norway, Denmark, Sweden, and Switzerland. Next in status were immigrants who came from other European countries who had "acceptable" occupations – mainly low-skilled jobs in basic industry – including farm workers, miners, textile workers, and domestics. Immigrants from these countries could be sponsored by any "legal resident of Canada." In the case of Asiatics, however, only very close relatives of Canadian citizens were eligible for admission. The government of the day was opposed to large-scale immigration from the Orient and preserved the "white Canada" policy for the next 15 years.

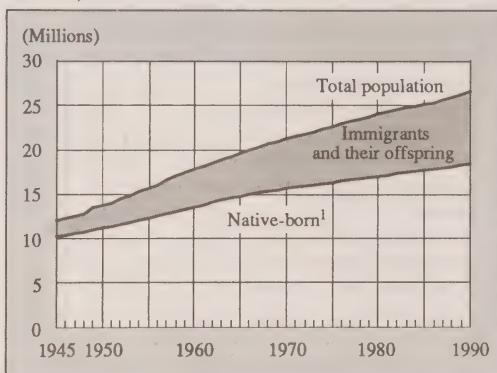
Beginning in 1950, the Canadian government assisted immigrants with interest-free loans for the cost of travel to their destination if their skills were urgently required. At the same time, many "displaced persons" were allowed to enter Canada without a preselection by occupations. In 1956, generous and unconditional assistance was given to Hungarian refugees: They, too, were granted entry on the basis of humanitarian grounds and exempted from the application of selectivity criteria.

From the end of World War II through most of the 1950s, conditions for immigration were very favourable. Incomes in Europe were much lower, and immigrants from there

could greatly better their lot by coming here. Between 1946 and 1957, some 1.7 million immigrants arrived in Canada. Net immigration was 1.1 million; in four of those 12 years, it exceeded 100,000 – an annual rate of immigration that had not been reached since the turn of the century. In fact, during the whole postwar period, immigration remained at sustained high levels, relative to most of Canada's history. The result was that postwar immigration had a sustained, positive impact on population growth in Canada (Chart 2-5).

Chart 2-5

Population Growth, with and without Immigration, Canada, 1945-90



1 Excluding the Canadian-born offspring of immigrants who came to Canada in 1945 or later.

SOURCE Data from Statistics Canada and estimates by the Economic Council of Canada.

From the Late 1950s through the 1960s

In 1957, Canada's postwar economic boom came to a temporary end. Investment was down, and unemployment was rising. Initially, the cabinet responded to the slowdown in manufacturing and construction activities as it did in the early 1930s – i.e., by shifting away from "employment-competing" to "employment-creating" immigration (for example, farmers with capital were given preference over most others). But during the election campaign of 1957, the leader of the Progressive Conservative Party, John Diefenbaker, proclaimed that Canada must "populate or perish" and promised that his government would pursue a vigorous immigration policy. Under his government, the policy shifted from a focus on a broad range of low-skill

occupations to an emphasis on a narrow range of high-skill professionals and entrepreneurs with capital.

This policy change was based on perceived changes of the country's needs. With the advances in mechanization, Canada's requirements for unskilled labour were thought to have decreased, while those for highly skilled labour appeared to be unlimited. The new immigration policy was also based on a concern that the needs for highly skilled labour could not be met by drawing on either the domestic supply or the traditional sources of immigrants – i.e., Britain and other European countries. Thus the country of origin became less important as a criterion in Canada's immigration policy.

A new set of immigration regulations was tabled in the House of Commons in 1962, removing most traces of racial discrimination from Canada's immigration policy but still allowing European immigrants to sponsor a wider range of relatives than non-Europeans. With this change in policy, and a strong recovery of the economy, the average annual inflow of professionals more than doubled from roughly 7,000 during the years 1958–61 to 20,000 during the years 1962–69. By the late 1960s, professionals accounted for one quarter of the immigrants entering the labour force.

The response of the Canadian immigrant community to the new immigration policy was quite negative, mainly because it limited their right to sponsor nondependent relatives. The issue was not resolved until 1967, when the government of Prime Minister Lester B. Pearson adopted a new immigrant-selection system (incorporated in the Immigration Regulations of October 1967). It regulated the flow of those immigrants who did not qualify as close family members or refugees by applying a selection system based on points. Immigrants admitted in this way subsequently became referred to as "independent class" immigrants, in contrast to "family class" and refugees.

The main principles of the point selection system were: 1) that it should admit people who fit the perceived needs of the Canadian labour market and economy; and 2) that it should be universally applicable and not discriminate on grounds of race, colour, or religion. Although immigrants sponsored by close relatives in Canada were admitted without qualifying under the point system, more distant relatives still had to qualify under it.

Under that system, points were allotted for various factors – in particular, education and occupational skills. Applicants for immigration could obtain a maximum of 100 points – up to 30 points for short-term factors and up to 70 points for long-term factors. The short-term factors

included: pre-arranged employment or designated occupation (up to 10 points); knowledge of French or English (up to 10 points); having a relative in Canada (up to 5 points); and intention to go to an area of strong labour demand (up to 5 points). The long-term factors included: education and training (1 point for each successful year of formal education up to a maximum of 20); personal assessment by the immigration officer (up to 15 points); occupational demand (up to 15 points); occupational skill (up to 10 points using an international skill rating scale); and age of the applicant (10 points if under the age of 35, and minus 1 point for each year over 35). Certain complementary conditions applied to independent applicants and "nominated" relatives, as well as to entrepreneurs. And in unusual cases, the selection officer could override the point system and admit or reject an applicant (see box).

The 1962 regulations and the 1967 introduction of the point system were major changes in immigration policy. Prior to the 1960s, over 85 per cent of all postwar immigrants to Canada came from Europe and the United States. After 1961, however, and even more so after the introduction of the point system in 1967, the proportion of immigrants coming from the West Indies, the Middle East, Asia, and Africa increased sharply – from less than 20 per cent of all immigrants in the late 1950s and early 1960s to over 40 per cent in the late 1960s and early 1970s (see Chart 2-4).

Because of a loophole in the regulations, not all immigrants entered Canada as independents, close family members, or refugees during those years. Section 34 of the 1967 Immigration Regulations allowed not only refugee claimants but also visitors to apply for landed-immigrant status from within Canada. That status was not granted automatically to such applicants, but those who failed could appeal the decision to the Immigration Appeal Board, created at the same time. As the backlog of cases before the Immigration Appeal Board was increasing, illegal immigration reached critical proportions. The board had the power to let "illegal" immigrants stay on compassionate or humanitarian grounds. Naturally, the longer they were able to stay and to integrate successfully into Canadian society, the more compelling their appeal became.

From the 1970s into the 1980s

By May 1973, some 17,000 "visitors" or illegal immigrants were waiting for a hearing before the Immigration Appeal Board. As the board could only process about 100 cases per month, this represented a 14-year caseload. To overcome this difficulty, the Minister of Manpower and

Immigrant Selection Factors under the Point System, Canada, 1967

	Range of points of assessment
Independent applicants	
<i>Short-term factors</i>	
Arranged employment or designated occupation	0 or 10
Knowledge of English and/or French	0-10
Relative in Canada	0, 3, or 5
Area of destination	0-5
<i>Long-term factors</i>	
Education and training	0-20
Personal qualities	0-15
Occupational demand	0-15
Occupational skill	1-10
Age	0-10
Potential maximum	100
Nominated relatives	
Long-term factors (same as for independent applicants)	1-70
Short-term settlement arrangements provided by relative in Canada	15, 20, 25, or 30
Potential maximum	100
Sponsored dependents	
Close relative in Canada willing to take responsibility for care and maintenance	Not required
<p>To qualify for selection, independent applicants and nominated relatives normally had to earn 50 or more of the potential 100 points of assessment. In addition, they had to have received at least one point for the occupational-demand factor, to have arranged for employment, or to have a designated occupation. In unusual cases, selection officers could accept or reject an independent applicant or nominated relative, regardless of the actual number of points awarded. Entrepreneurs were assessed in the same way as independent immigrants.</p>	
<p>SOURCE Manpower and Immigration Canada [1974b].</p>	

Immigration submitted a bill to the House of Commons to offer these "immigrants" an opportunity to regularize their status during a period of 60 days and to make a new – and

legal – start in Canada. In the words of the Minister: "The right to apply in Canada for immigrant status was a noble experiment that proved unworkable and has to be laid to rest, but I think decency demands that it be done fairly" [Hawkins 1989, p. 48].

The so-called "Adjustment of Status Program" went into effect on 15 August 1973 and expired two months later. When the program ended, some 39,000 people from 150 countries had obtained landed-immigrant status. Against the urgings of the media and the opposition, the program was not extended beyond the 60-day limit, as the government believed that might have legitimized rather than discouraged illegal immigration.

In late 1973, the oil crisis struck. The economy was hit by a fourfold increase in the price of oil. Inflationary pressures throughout the industrialized world reached new highs, and governments imposed very restrictive economic policies.

It was felt that the adverse changes in external conditions, combined with unfavourable demographic developments at home, could have a very serious impact on Canada's future growth. In extending its outlook over the next decade, the Economic Council predicted that the dramatic decline in birth rates of the 1960s was going to slow down the growth of the working-age population in the 1980s – as indeed it did [Economic Council of Canada 1975, p. 8]. The Council also predicted that the decline in the growth of the labour force and the erosion in productivity growth, combined with inflationary pressures and a tighter monetary policy, would produce a serious slowdown of the economy during the late 1970s and the early 1980s.

This dismal prospect of sluggish growth of the labour force, combined with poor economic performance, led to a reconsideration of immigration policy. In any case, the success of the Adjustment of Status Program and the widespread interest and support for it encouraged the Minister to initiate an in-depth review of immigration, the aim being "to create a new long-term basis for Canada's immigration and population policy" and, ultimately, to formalize it in a new Immigration Act. A Green Paper was issued in 1974, not only to set out new rules and regulations but to ponder the future of Canada's population – its size, rate of growth, distribution, and composition – and to review the principles that should govern the admission and integration of immigrants from abroad [Manpower and Immigration Canada 1974a].

Although it began on a very positive note, the Green Paper was disappointing. Throughout the paper was "a

thinly-veiled bias against an ‘expansionist’ immigration program, as well as a tendency to emphasize economic factors and ignore political ones”; as a result, “the media as well as many individual Canadians reacted against it” [Hawkins 1989, p. 55].

The new Immigration Act was tabled in 1976 and passed in 1978. It provided for a revised point system that gave less emphasis to the applicant’s educational attainment and more to his/her occupational experience (especially entrepreneurial experience). The legislation formally specified the three classes of immigrants already recognized in practice – the family class, refugees, and the independents.

The *family class* consisted of relatives of permanent Canadian residents. Relatives eligible under the family class included the sponsor’s spouse, fiancé(e), unmarried children of any age (if adopted, under 13 years of age), parents of any age, grandparents 60 years and over (or incapable of working); orphaned brothers, sisters, nephews, nieces, or grandchildren (not yet married) under 18 years of age; or any other relative if the sponsor had no close relatives in Canada or no family-class relatives who could be sponsored. Family members were not assessed under the point system, provided they met basic standards of good health and good character, and provided their sponsoring relatives agreed to give them lodging and care for up to 10 years [Statistics Canada 1984].

Refugees who feared persecution for reasons of race, religion, nationality, political opinion, or membership in a particular social group if they returned to their home country, or persons in refugee-like situations or in whose country emergency conditions prevailed, were admitted without having to qualify under the point system.

Independents and other immigrants were only admitted under the point system. Additional points would be given to those who did not belong to the family class but who had kin – but no next of kin – willing to support them for up to five years [Statistics Canada 1984].

The new Act also required that target levels of immigration be integrated with Canada’s demographic and labour market conditions, to support the attainment of goals that the federal government, in consultation with the provinces, might establish from time to time. After the Act came into force, overall immigration levels were to be set for the next two years, and a planning range was to be established for subsequent years. At the same time, “component planning” was to be applied to set admission levels for the family class, for refugees, and for the independents. The first report identified a planning level of 100,000 for 1979, but no component levels were specified [Howith 1988, p. 9].

Another development in the late 1970s was the signing of the Cullen-Couture Agreement. Named after the ministers then responsible for immigration at the federal level and in the Quebec government, the agreement was signed early in 1978. Recognizing the concurrent jurisdiction of federal and provincial legislatures in immigration matters (according to Section 95 of the British North America Act), the agreement sought to ensure cooperation between the two governments in that area.

The agreement provided for a joint committee to be established with a view to harmonizing the economic and sociocultural objectives of the two parties. Selection criteria for independent immigrants were based on the personal capacity of applicants to establish themselves successfully in either jurisdiction. Each party was free to choose its own set of selection criteria and to assign them weights as it saw fit. For example, without prior consultation, either the federal government or the Quebec authorities could independently refuse an immigrant’s application in the name of both parties. It was also agreed that Canada would not issue student visas to those wishing to study in private or public institutions in Quebec without the explicit approval of the provincial government. The initial agreement had an application of three years, renewable at its expiry by tacit understanding (i.e., if neither party challenged the renewal).

The year 1978 was also marked by another oil shock – the second in less than 10 years. The doubling of the price of oil, higher prices for automobiles, and the shift from large domestic models to smaller imported vehicles caused a severe drop in the demand for American cars. House prices climbed so high that new housing starts in Canada dropped from 246,000 in 1977 to fewer than 160,000 in 1980. Exports declined sharply. The economy went into a deep slump.

Concerns about the economy were reflected in changes that were made to the immigrant selection system. Employers bringing in temporary workers to Canada, for example, had to show that no Canadian citizens were qualified to perform the required work. If would-be immigrants did not rate one or more points for occupational demand, they were automatically barred. And if an applicant had been unable to make prior arrangements for employment, a penalty of 10 points was assessed.

Nevertheless, in 1979 actual immigrant landings numbered 112,000 – i.e., 12 per cent more than had been planned for. The “overshoot” was attributable to a special program for the Indochinese “boat people.” In the same year, the planning level for 1980 was set at 120,000. Actual landings numbered 143,000 – an overshoot of 19 per cent, again caused mainly by larger number of refugees. Planning levels for later years ranged from 130,000 to

145,000, but because of the severity of the recession, they were adjusted downward. Actual arrivals were equal to, or lower than, the adjusted levels.

Thus there was a correlation between Canada's economic fortunes, as proxied by the unemployment rate, and the rate of immigration. From a high of over 200,000 in 1973-74, the annual level of immigration declined to below 100,000 in 1978-79, recovered somewhat in 1981-82, and then fell below the 100,000 mark again for three consecutive years (Chart 2-6). The reductions were caused in part by shifts on the supply side, as successive global recessions made potential immigrants hesitant to leave their home country, and in part by tighter control on the demand side: from 1 May 1982, independent immigrants could not be recruited unless they had pre-arranged employment – a condition which required, in turn, that Canadian employers seeking to hire foreign workers provide proof that bottlenecks existed [Samuel and Conyers 1986, p. 5].

The Canadian economy recovered from the depths of the recession, with impressive gains. By 1984, the two oil crises of the 1970s were fading from memory and the economy was growing at a rate of 5 per cent in real terms – a performance that had not been reached since 1976. The

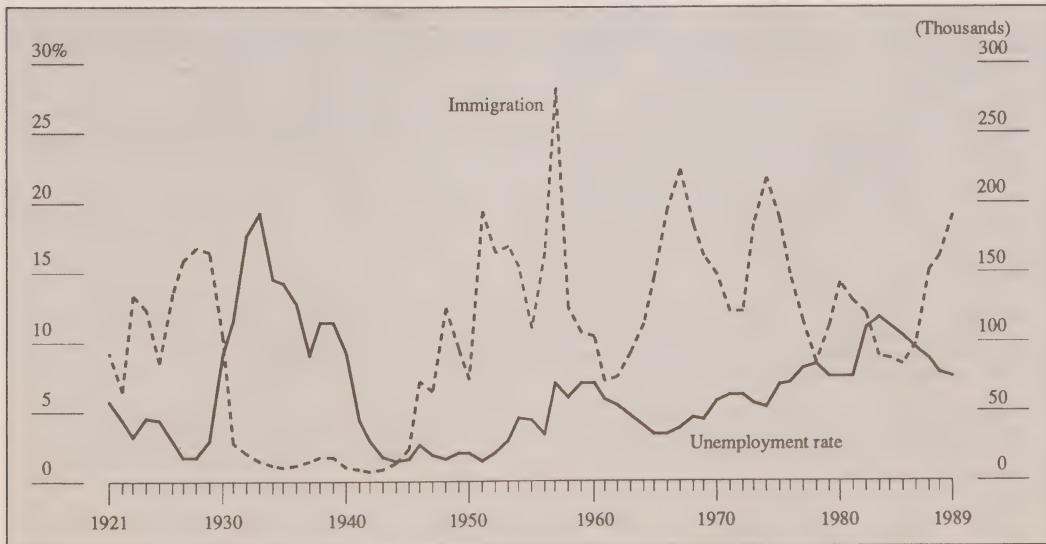
gains, which were based on strong consumer demand, were supported by a much stronger U.S. economy and by a favourable exchange rate that gave Canadian exporters a competitive edge against U.S. suppliers. With the recovery of the economy and a more relaxed policy, the rate of immigration picked up again.

In 1985, the Minister of Employment and Immigration focused attention on the goals of the earlier Act in a special report to Parliament [Employment and Immigration 1985]. Prompted by the dramatic drop in the country's birth rate and the low levels of immigration, the minister stressed that there was a need for an assessment of the linkage between the rate of immigration and the future size, natural rate of growth, and composition of the population.

In a second report, the Standing Committee on Labour, Employment and Immigration of the House of Commons recommended that "every effort should be made, beginning today and continuing for at least 30 years, to consider using immigration policy to smooth out the current age imbalance in the Canadian population" [Foot 1986, p. 2]. This recommendation underlined the prevailing perception that immigration should not only be tied to Canada's specific labour-force needs in terms of occupational skills but should

Chart 2-6

Unemployment¹ and Immigration, Canada, 1921-89



¹ As a proportion of the labour force.

SOURCE Based on data from Statistics Canada and Employment and Immigration Canada.

**Selection Criteria for Assisted Relatives and Other Independent Immigrants,
Immigration Act, as Amended in 1985**

	Maximum number of points	Remarks
1 Education	12	One point for each year of primary and secondary education completed
2 Specific vocational preparation	15	
3 Experience	8	
4 Occupational demand	15	
5 Arranged employment or designated occupation	10	
6 Location	5	If person intends to proceed to an area designated by the minister
7 Age	10	10 units if aged between 18 and 35; one unit deducted for each year over 35 years
8 Knowledge of English or French	10	10 units if fluently bilingual; 5 units if fluent in either English or French
9 Personal suitability	10	
10 Bonus for family class or assisted relatives	5	
Total	100	

Under this point selection system, certain processing priorities and selection criteria apply. As described in the text, family members and refugees are admitted without having to qualify under the system, but independents and other applicants need to qualify.

The *selection criteria* according to which a visa officer assesses the immigration applications of independents and others are as follows: i) all factors of the point selection system shown above apply unless the applicant falls under categories 2 to 5 under "order of priority" below; ii) the same system applies for a would-be self-employed immigrant, except for factor 5; iii) the same system also applies for a would-be entrepreneur, except for factors 4 and 5; iv) the same system also applies for a relative-assisted immigrant applicant, except for factors 5, 6, 8, and 10; and v) in case of a retired person, the assessment is made on the basis of the intended place of residence, the presence of friends and relatives, and the immigrant's potential for adjusting to life in Canada and to support himself/herself without social benefits from provincial or federal governments (*Immigration Act*, November 1989, pp. 5, 9, and 10).

The *order of priority* for processing immigrant applications is as follows: 1) members of the family class, Convention refugees, and certain designated classes of persons; 2) entrepreneurs; 3) qualified persons willing to work in a designated occupation; 4) persons with prearranged employment; 5) retired or self-employed persons; 6) persons who are awarded more than 8 points under occupational demand; 7) persons awarded from 4 to 8 points under occupational demand; and 8) all other immigrant applicants.

Certain changes to the selection system were introduced in the minister's annual report for 1990. These had not yet resulted in amendments to the Act or in regulatory changes at the time of writing, however.

Among those changes affecting *family immigration* were the following:

- i) In view of the inadequacy of the current definition of the concept of "close" family, the regulation for "family immigration" is changed to include, in addition to spouses and fiancé(e)s, all dependent children, all parents, and dependent adopted children;
- ii) All parents of permanent residents and Canadian citizens become eligible for sponsorship as family members;
- iii) To minimize the abuse of the program by "adoptions of convenience," an independent assessment of the adoption process is required.

To improve the selection of *skilled workers*, applicants with skills required to fill national or regional occupational shortages receive an extra 10 points. About 20 to 30 per cent of selected workers could be chosen from this designated occupational category. With few exceptions, all other occupations are "open," so that more emphasis is placed on education and language skills, as they are deemed to be important for the integration of immigrants into the labour market.

To prevent the build-up of *backlogs* – once there are enough immigrant applicants to meet the objectives of the immigration plan – all occupations are restricted until the existing case load is cleared.

SOURCE Immigration Act, Office Consolidation (Ottawa: Supply and Services Canada, November 1989).

also compensate for the fluctuations in domestic fertility rates of some 20 years earlier. In line with this recommendation, the immigration planning levels for 1986 and 1988 were raised, covering a range from 105,000 to 135,000. In 1986, actual arrivals fell short of the planned range by somewhat less than 10,000; in 1987, they exceeded the planning level by over 20,000.

As in earlier years, a point selection system was applied to determine the eligibility of applicants. Although the maximum number of points (100) was the same as previously, more emphasis was placed on training, with employment-related factors – e.g., experience, practical training, and education – accounting for about half the possible points of assessment (see box). The selection criteria applied only to independents and assisted relatives, but not all applicants in those two categories were rated against all criteria. For example, entrepreneurs and investors were not assessed on occupation or employment factors. Refugee applicants were assessed by foreign-service officers who determined their eligibility mainly on humanitarian grounds (the refugee question is discussed in greater detail in Chapter 8).

As the 1980s progressed, the immigration system came under increasing pressure from economic migrants who claimed refugee status to gain entry into Canada. To counter the problem of “bogus refugees,” two bills were introduced in 1987 and formally adopted in 1988 [Employment and Immigration Canada 1988]. The aim of the first bill (Bill C-55) was to “streamline the determination of refugees,” while that of the second (Bill C-84) was to “combat unscrupulous individuals who profited by transporting people to Canada under false pretences.”

Conclusions

Immigration has not contributed continuously to Canada’s population growth. Some initial net immigration was necessary well before Confederation to initiate the process of population growth through natural increase. However, from the 1860s to the end of the 19th century, net immigration was negative, on average. Then there was a short-lived but large burst of immigration between 1900 and 1914, as the West was settled. Between the two world wars, however, total net immigration was once more very small, making hardly any contribution to population growth. It is only after the Second World War that immigration became a significant and durable factor in population growth.

A historical perspective gives little or no support to the view that immigration is needed for economic prosperity. In the 19th and early 20th centuries, the fastest growth in per-capita real incomes occurred at times when net immigration was nil or negative. Later in the 20th century, the opposite linkage is seen, but clearly there is no long-term correlation. The only consistent link is between unemployment rates and immigration, and here the causality plainly runs from the former to the latter: immigrants are more numerous when times are good than when they are bad, but it seems clear that it is the good times and the bad times that cause immigration to fluctuate – not the other way around.

Finally, there has been a clear historical trend towards a more liberal immigration policy. While Canada had extremely racist policies in the past, it no longer does so; but in the context of history, that liberalization is very recent, dating only from the 1960s.

3 Economic Efficiency

What are the effects of immigration on the economic efficiency of the host community? That impact on efficiency is one of the three main routes through which increased immigration may influence the economic welfare of the host community. In the first instance, immigration may do so by altering the per-capita pre-tax income of existing residents – the subject of the present chapter. The other two potential economic effects are through tax and dependency levels, and through unemployment. Immigration can also affect the size and distribution of economic power within the host community, but we view this as a “political” effect.

Before beginning our discussion of the impact of immigration on per-capita income levels, a brief survey of previous work devoted to this issue will be useful. We then analyse the main putative impact of immigration on economic efficiency, which is effected through the size of the domestic market. Other possible efficiency effects can occur through the filling-up of labour market gaps and through spillover effects from the presence of a dynamic immigrant population. We also look at three types of objections that can be made to our efficiency analysis, and then present our conclusions.

A Brief Survey of Previous Work

An excellent survey of work before 1985 was done for the Macdonald Commission. In one of the commission's background papers, devoted exclusively to immigration policy, the authors state:

The broad consensus [of studies using econometric models] is that high levels of immigration will increase aggregate variables such as labour force, investment and real gross expenditure, but cause . . . real income per capita and real wages to decline [Marr and Percy 1985, p. 77].

They point out that the effects are very small indeed. As an example:

A . . . recent simulation exercise using a revised version of the CANDIDE model (Rao and Kapsalis 1982) found that an increase in net immigration from 50,000 to 100,000 a year beginning in 1980 would reduce real per capita GNP by 0.24 per cent and in 1990 by 1.50 per cent below the corresponding base case simulation value [Marr and Percy 1985, p. 78].

At the same time, the authors are cautious about negative results like these, which are common, noting that economies of scale in production are often ignored in the models that generate them. This is a crucial point, which is also ignored in another summary of recent work on immigration [Health and Welfare Canada 1989]. Most of our work in this chapter will consist in estimating the size of possible scale effects, which are, in our view, the single most important factor likely to influence productivity and income from immigration. Marr and Percy also make the important point, related to the distinction between hosts and newcomers, that we emphasized above, namely:

The average income of original residents may rise because of immigration while the average for all residents falls. . . . The basic problem is that the studies never make clear whose welfare is important when assessing immigration, that of the original residents or that of the immigrants [Marr and Percy 1985, p. 79].

The only study allowing for scale economies that we have found is one that was done for the government of Quebec. Its authors conclude as follows:

This means that international immigration had the effect of increasing per capita annual income by \$129 (constant 1961 dollars) in 1974, which represents 10.3 per cent of the increase in real per capita income between 1951 and 1974 and 5 per cent of income in 1974 [Termotte et al. 1978, p. 58; translation by the Economic Council].

They have some reservations about the result, however, adding that:

This does not, however, necessarily imply that the original residents [autochtones] benefited from this increase in per capita income brought about by immigration. The latter could have “caused” an increase in per capita income simply because the immigrants from abroad . . . had an average income higher than the original residents [Termotte et al. 1978, p. 58].

They examine some further evidence and conclude that attributing 10.3 per cent of the 1951-74 income gain to immigrants is almost certainly an overestimate. They go on to say:

The basic conclusion of the final phase of our study, then, must be that international immigration indeed contributed

positively to growth in real per capita income in Quebec between 1951 and 1974, but that its contribution was relatively weak. It is clear that, in decisions regarding immigration policy, considerations other than strictly economic must take precedence [Termotte et al. 1978, p. 58].

Termotte et al. thus find a small positive effect, unlike nearly all other investigators. That result is almost certainly due to their having taken account of scale economies, greatly to their credit. Unfortunately, the result is less trustworthy than it seems, because they used an unreliable estimate of scale economies from Walters [1968]. That estimate was actually an assumption or, to put it bluntly, an informed guess. In the context in which Walters used it, that was not a critical matter. When it comes to estimating the impact of immigration, however, the Walters estimate is far less useful. Given this, we conclude that the Termotte/Mathews/Benyahia study does not really contradict more pessimistic results obtained by other researchers, as summarized in Marr and Percy [1985].

Finally, we cite from some very recent work, done by Informetrica for the Employment and Immigration Commission:

Additional immigrants will clearly increase the size of the economy since they exert at least some positive influence on both the demand and supply sides. It is also generally conceded that immigrants have *little influence on average, per capita disposable income*; that is they do not generally alter, in a major way, this measure of well-being for the population at large [Sonnen 1989].

These findings from the Canadian literature are typical. They may be summed up as follows: there is little or no effect of immigration on the per-capita income of existing residents; there may even be negative effects, but these results may be attributable to the failure of researchers to allow, or to allow reliably, for economies of scale.

Immigration is as important for Australia as it is for Canada. The Committee for Economic Development of Australia prepared a major study of the effects of immigration. After three years of effort with a large team, the study failed to find significant net effects of immigration on any important measure of individual economic well-being. The only effect was on the absolute size of the Australian economy. The following quotation is revealing in this respect:

It is disappointing, however, that the study apparently is unsure of the likely overall economic effects on Australia of immigration.... The report thus is silent or muted on the single most important economic question of whether (on any acceptable measure) immigration would be likely on aver-

age to improve the material living standard of Australians both resident and new. Unless confidently it can be expected that Australians overall would be better off in this sense as a result of immigration there can be little economic justification for moving large numbers of people to Australia from other countries. It is appreciated that this is a most difficult question to answer quantitatively, but absence of a reliable answer leaves the main economic justification of immigration in a state of potential disputation [R. Griffin, quoted in Norman and Meikle 1985, p. 30].

It is important to add, however, that the Australian team, like Canadian investigators, was unable to deal with the issue of scale economies because of lack of data and theoretical problems.

Domestic Market Size and Economic Efficiency

According to the classic theory of population size, the living standard varies with population. At one extreme of the range, an excessive population density allows for no more than a minimum subsistence level for food, shelter, and clothing; at the other end of the range, insufficient density makes for a lower living standard than is possible. Somewhere between the two is an optimal point.

One explanation is that the absorptive capacity of a country is linked in a fundamental way to what economists call the "law of diminishing marginal returns." This asserts that as more and more inputs are applied to a finite resource – in this instance, more people to a finite land resource – output per capita will rise rapidly at first, at an accelerating rate. Later, it will continue to rise, but at a decreasing pace. Later still, as the land becomes very densely settled, output per capita will fall, though total output may continue to increase. Finally, when the population becomes so large that overcrowding occurs, even total output may decline. Well before this last stage, however, a point is reached at which output per capita is at its maximum. The population level at that point is called the "optimum population."

Another possible explanation of why there is an optimum population size hinges on the advantages of large-scale operations and specialization made possible by a large domestic market. In certain industries, especially in manufacturing, the cost of technology is such that large outputs are required for reasons of economic efficiency; at the same time, transport costs or other barriers make it necessary to sell these large outputs mainly to domestic buyers. In addition, certain specialized firms, or even whole industries, can survive only with a large domestic market. An example

of this is that of highly specialized operations that are possible only in major metropolitan areas, which, in turn, require a large national population. Finally, it is argued that certain government services can be provided more cheaply on a per-capita basis if the population is large. For all of these reasons, output per capita may rise for a while as population grows. It will not rise indefinitely, however. A maximum is reached, and then output per capita begins to drop as a result of congestion effects, the difficulty of operating large-scale bureaucracies (private or public), and, of course, the effect of diminishing returns to land stressed by the first explanation.

According to theory, then, every country has an optimum population size. If Canada were below that optimum, more immigration could help to approach it, thereby increasing economic efficiency and, as a result, raising living standards for both the host population and the immigrants.

Testing whether that is actually the case in Canada, rather than simply assuming it is because it seems so plausible, is very difficult. It is even more difficult to make quantitative estimates of how large any potential gain might be.

The problem lies in the need to distinguish the effects of population size from other important influences on productivity and living standards. Much past work by economists on the theory and empirical analysis of economic efficiency and growth has demonstrated what should be obvious: the living standards of a country are not determined exclusively by its land resources and population density. The work has shown that three other factors are especially important: the amount of capital per worker, both physical and human; the state of the technology; and the potential for sales to nondomestic markets.

It has been shown that each of these factors is composed of numerous elements. Capital, for example, is embodied in the machinery and equipment that workers use, in the layout of buildings and assembly lines, in the transportation and communication infrastructure, and in the skill, training, and education of the work force (human capital). The state of technology is related to the discovery, development, and marketing of innovations (both process and product), to the efficiency of international transfers of technology and know-how, to the accumulation of knowledge through learning by doing, to R&D activity, and to many other factors. The potential for sales in nondomestic markets depends on distance to potential customers, their income levels, tariff and nontariff barriers, the degree of cultural and linguistic similarity, and so on.

Capturing all of these effects fully would ideally lead to a large modelling analysis of both aggregated and dis-

aggregated production functions in Canada, as well as of the degree of utilization of international markets, industry by industry. Time and resource constraints, as well as a modicum of modesty and concern, force us to draw back from that course. Instead, we opt for two simpler methods.

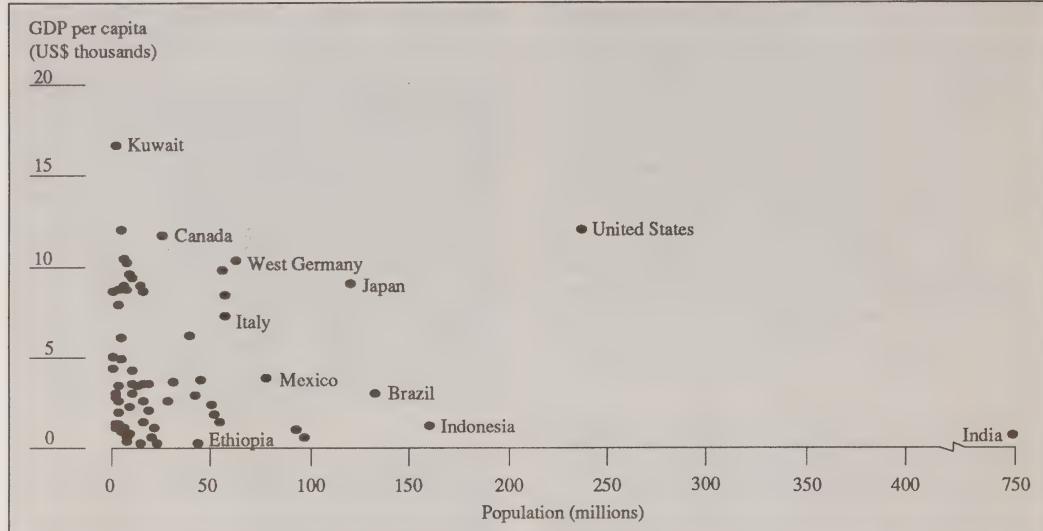
The first is based on the idea that the factors that influence economic efficiency vary enormously across countries. The amount of physical and human capital per person, the level of technological development, and the degree of access to suitable markets are all very different from one country to another, as is the domestic market size. This opens up the possibility that we might be able to explain most of the variation in efficiency of different countries by variations in their capital endowments, level of technological development, and market access. After the influences of all of these other, more important variables had been allowed for, we could then find out if any influence of domestic market size remained. We call this the "international comparisons" method.

The second method consists simply of surveying the literature on economies of scale, industry by industry. If domestic market size has an impact on efficiency, a necessary condition is that individual industries be subject to economies of scale. By looking at how important such scale economies are, industry by industry, according to the existing literature, we may be able to glean some notion of the potential for efficiency that an increased population size through immigration might bring.

International Comparisons

In applying the international-comparison method, we compiled statistics on some 68 countries, from 1960 through 1984. We began by checking whether the relationship between population size and economic efficiency, if any, is strong enough to be seen directly. For each country, we used data on gross domestic product (GDP) per capita, in constant 1980 dollars, as the measure of economic efficiency, as well as data on the size of total population. Chart 3-1 shows those observations for the year 1984. It is apparent that, as expected, no obvious relationship exists.

The relevance of the economic theory that explains efficiency can be seen in Table 3-1, which summarizes information on GDP per capita, on an indicator of capital per capita, and on an indicator of the level of technology. The data are shown in a way that reveals the clear linkage between income and the two other variables. Two years are shown, though data were also compiled for 1960, 1970, 1975, and 1980.

Chart 3-1**Gross Domestic Product per Capita and Size of Population, Selected Countries, 1984**

SOURCE Estimates by the Economic Council, based on Summers and Heston [1988].

The data for 1984 in Table 3-1 show that GDP per capita ranged from a low of US\$681 (1980 dollars), the average for countries in the lowest quintile, to US\$10,044 for those in the highest quintile. The indicator of capital stock – capital investment per capita – mirrors the behaviour of income per capita. The indicator of technology – number of telephones per 100 persons – also displays a high correlation with per capita income. The top panel shows that similar relationships held two decades earlier. These data suggest that, as theory predicts, international differences in capital per capita and technology are probably important in explaining international differences in gross domestic product per capita. Their influence must be allowed for before there can be any hope of determining whether population size also has an influence.

We comment parenthetically here on a problem of “two-way causation.” The amount of capital stock and the level of technology, and our proxy indicators for them, not only influence per-capita incomes but are also, in turn, influenced by them. Capital stock is built up from savings, the level of which depends partly on income. The development of technology depends on education, good communications, and so forth, which are themselves also dependent partly on income. There is a chicken-and-egg problem here – a

problem of two-way causation, which is a very common and troublesome occurrence in economic analysis. While there are ways to deal with this type of problem in some cases, they were not applicable in this particular instance. We must therefore assume, rather than prove, that the findings of the analysis will not be significantly in error as a result of the inability to correct for two-way causation. There is some evidence from econometric work and past experience to suggest that such an assumption will often be correct, and that is our justification for making it.

To detect the influence of population size on gross domestic product (GDP) per capita, we performed what is known as a regression analysis – a method for estimating how one variable (GDP per capita, in this case) is linked to other variables (capital stock, technology, population, and a few others, in this case) by making use of statistical data. We had to allow for a complicated kind of linkage, especially in the case of population. Both the density of population and its absolute size would be expected to influence the effective size of the domestic market from the point of view of producers; accordingly, both variables were included. In addition, we had to incorporate the notion, based on the underlying theory, that the hypothetical impact of greater population on efficiency would obtain only over a

Table 3-1**Gross Domestic Product, Capital, and Technology, 68 Countries, by Quintile, 1965 and 1984**

	Quintile ¹	Gross domestic product per capita	Capital investment per capita	Indicator of technology ²
(1980 U.S. dollars)				
1965	1	541	68	--
	2	1,176	202	1
	3	1,855	425	4
	4	3,612	866	9
	5	6,363	1,763	28
1984	1	681	88	1
	2	1,858	302	3
	3	3,342	647	10
	4	6,637	1,560	41
	5	10,044	2,493	63

1 Each quintile represents 20 per cent of the total number of countries, distributed according to GDP.

2 Number of telephones per 100 persons.

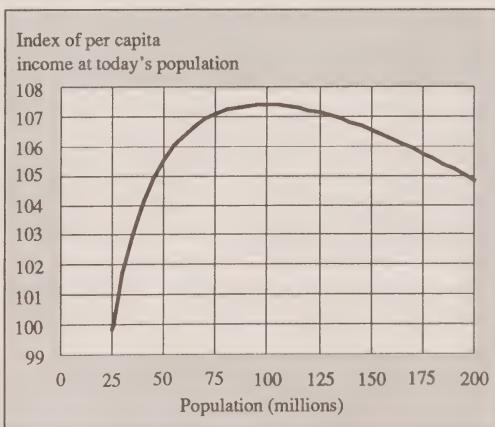
SOURCE Estimates by the Economic Council, based on *United Nations Yearbook*, various issues.

certain range of population. Beyond that, no further positive effect would be expected and a negative effect might even appear. The effects of capital, technology, and other variables are also expected to work in a rather complex way. The equation that we estimated was therefore quite complicated (see Appendix A).

The most interesting estimation result was that population size does seem to influence economic efficiency and that the effect obtains over a very wide range of population.

We found that the economic benefits to Canadians from more immigration and greater population size would not rise indefinitely but would reach a maximum and then would slowly diminish. On the basis of today's production technology and capital investment, we estimated that a population of approximately 100 million people would maximize income per person (as measured by GDP per capita). At that population size, the average income of Canadians would be roughly 7 per cent higher than at today's population (Chart 3-2).

In a more realistic perspective (i.e., starting from today's population of 27 million), we found that for every additional one million persons – a figure that could be attained through a net immigration rate of, say, 100,000 per year over a decade – GDP per capita would be increased by about 0.3 per cent. That figure may seem low, but that depends on how one looks at it. It can be viewed, equally legitimately, in any one of the following three ways:

Chart 3-2**Estimated Range of Income per Capita, by Size of Population, Canada**

SOURCE Estimates by the Economic Council.

– a gross increase of \$71 per year per present resident, per million immigrants, for ever;

– a gross increase of \$1,894 per immigrant per annum, for ever; or

- a capital sum of \$76,000 per immigrant family of four, if a discount rate of 10 per cent is used.

All of these gains are described as "gross," because the calculation does not net out the costs associated with bringing the immigrants to Canada (such as the costs associated with the federal and provincial departments of immigration, with language training, and with any welfare benefits given to immigrants on arrival).

The gross benefits have been specified in a very precise way, simply in order to make clear the end result of a very complex and arcane estimation procedure. The margin of error attached to the estimate is large, but of uncertain size. Realistically, we can only conclude that: 1) the gross benefits to present residents from immigration are probably positive, taking into account the efficiency gains associated with the larger domestic market it permits; 2) they are small

when measured per member of the host community; and 3) they are fairly large per immigrant on a gross basis.

An Evaluation, by Industry, of the Importance of Domestic Market Size for Efficiency

The plausibility of the results described above can be tested by looking at scale economies from the perspective of individual industries. This can be done by using the existing literature concerning each industry to arrive at an estimate of how much the efficiency of each increases as the size of the domestic market grows (see box). One can then add the various industry estimates, weighted by their size, to obtain an estimate of the total impact of the changing domestic market size on national productive efficiency. Since immigration increases the size of the domestic market,

Method for Estimating the Effect of Domestic Market Size on Efficiency

We proceed as follows. For each of several industries or groups of industries, defined in conformity with the Standard Industrial Classification, we pose up to five key questions. The answers can sometimes be provided by common sense, sometimes by direct evidence, sometimes by theory (viewed as the distillation of evidence accumulated by previous investigators), sometimes not at all. The answers available, whether in part or in whole, enable us to assess the impact that a larger population would have on that industry or group of industries.

The first question is whether a larger domestic market would increase the industry's output. If it would not, domestic market size cannot have any impact on the industry's efficiency. The second question is whether larger firms in the industry are more efficient than smaller ones. If they are not, a larger industry output, whether achieved by more firms, by larger firms, or by some combination of the two, cannot affect average industry efficiency. There could be one reservation here concerning inter-firm specialization effects (see below). If large firms are more efficient, a third question is relevant: Would an expansion of the industry's market lead to an increase in the average size of firms in the industry? If it would not, then even though larger firms are more efficient, a larger domestic market would not lead to an increase in the industry's average efficiency. If it would, then a larger domestic market would disproportionately increase output in the larger and more efficient firms in this industry. The effect would be an improvement in average industry efficiency.

The first three questions are hierarchical: a negative answer to the first makes the second irrelevant, and a negative answer to the second question makes the third irrelevant. Thus it will not always be necessary to ask all three questions for a given industry.

The other two of our five questions should always be posed, at least in theory. The fourth question is whether the greater size of an industry can potentially lead to greater specialization of firms within it. If it can, this could increase average efficiency, whether or not larger firms are more efficient and whether or not they are disproportionately favoured by market expansion. For example, the output of an "industry" made up of one general auto-repair shop will be less than half as great as the output of an industry made up of two similarly sized auto-repair shops specializing in a different type of repair. In a way, market size expansion creates two new "industries" to do the range of work that a single one did formerly; alternatively, market size expansion changes the nature, but not the size, of individual firms in the old "industry."

The fifth question is whether the Standard Industrial Classification groups together subindustries that are similar enough that the answer given to a given question about one subindustry will also apply to the majority of the others. If not, this method for estimating economy-wide scale economies, and most of the existing literature upon which it draws, both become invalid. Having acknowledged the importance of this aggregation issue, we shall do as most investigators do: grit our teeth and pass it by.

we then have an estimate of its impact, through this particular route, on productive efficiency.

Agriculture, Forestry, Fishery, and Mining

These four sectors together account for just under 10 per cent of Canada's gross domestic product. For many industries in the group, any expansion of the domestic market is irrelevant to output. Industries that sell in the international market, at prices and terms set there, might sell more domestically if the domestic market were larger, but this would represent a diversion from international sales rather than a net addition to them. This includes a majority of Canada's natural-resource industries – lumber, wheat and other grains, potash, coal, uranium, and so on. Thus, even if scale economies can be achieved through market size, the international nature of these industries makes the market already large enough to have exploited them fully.

A few industries within this group – notably the dairy industry – sell to local markets. Presumably, a larger national market would partly increase the number of local markets of this kind, and partly increase the size of each market. In the latter case, if larger firms are more efficient than smaller ones and if the distribution of output shifts their way as the market grows, there could be an effect of domestic market size on industry efficiency.

No direct evidence exists on whether larger firms are more efficient than smaller ones in the dairy and other local-market natural-resource industries, such as sand and gravel. The best that can be done here is to look at some recent work on variations in efficiency by size of farm in Prairie agriculture [Auer 1989]. The results from that study show that in Prairie agriculture, being large does not, in itself, convey an advantage in efficiency. Rather, larger farms appear to be more efficient because largeness is statistically related to numerous factors that do affect efficiency. The relationship is not a causal one (see Appendix B).

Are the basic factors determining efficiency on Prairie farms sufficiently similar to those on farms in other regions and to those in other types of resource firms serving local markets, both in the Prairies and elsewhere, that we can generalize from one to the other? We think it is very likely so. Certainly, we believe the balance favours the view that gains from a larger domestic market in the natural-resource industry group as a whole would be negligible.

One final point before leaving agriculture and the other natural-resource industries: a larger domestic market would decrease somewhat the needed size of the transport industry

per unit of agricultural and natural-resource output, since the average distance from consumers to producers would decrease with a shift within total demand towards a higher relative weight for domestic consumers. This is a special kind of saving, attributable to a larger domestic market, though it cannot be labelled an "economy of scale."

We assume that any effect of this kind is included in scale estimates for the transportation and communications industry, considered below.

Construction

The construction industry also comprises just under 10 per cent of gross domestic product. A larger domestic market would certainly increase the total output of the industry, nearly all of which is sold to domestic consumers.

Most parts of this industry consist of large numbers of firms, ranging from very small to fairly large. As in any industry where small firms co-exist in large numbers with medium-sized and large firms, productivity advantages favouring the large firms cannot be overwhelming or must be offset by some disadvantages. Otherwise, fewer small firms would be able to survive than do in reality. In addition, the expansion of the industry does not appear to have significantly decreased the proportion of small firms in the past. This suggests that no economies of scale at the level of the firm exist; nor have we found any studies suggesting that such economies do exist. The only remaining possibility would be increased specialization among firms as the domestic market expanded, leading to improved industry efficiency even if individual firms had no scale economies. That possibility seems remote, however.

Our conclusion, therefore, is that a larger domestic market would not lead to any perceptible gains in efficiency in the construction industry.

Manufacturing

This industry comprises just under 20 per cent of gross domestic product. For most of the manufacturing industry, an increase in the size of the domestic market would lead to an increase in output. Some exceptions undoubtedly exist – where a particular subindustry is a small player in the global market, for example – but they are not common.

On the question of whether larger firms tend to be more efficient than smaller ones, a considerable body of knowledge exists for this sector (see Appendix C). The answer is

fairly unambiguous: across wide parts of the manufacturing industry, larger firms have an efficiency advantage or – the result is the same, for our purposes – have longer production runs that permit greater efficiency.

Moreover, an expansion in the size of the industry would seem likely to favour the differential growth of larger firms, longer runs in existing firms, as well as greater specialization among firms. All of these changes make the industry as a whole more efficient.

Although productivity gains from scale economies exist, they are not very large. Appendix C surveys the estimates available and finds a fairly wide range. Nevertheless, there is enough common ground among the results that we may reasonably deduce that a doubling of manufacturing output would be expected to improve productivity in that sector by about 3 per cent.

Transport, Communications, and Public Utilities

This group of industries accounts for just over 10 per cent of gross domestic product.

Transport, communications, and public utilities are areas where significant productivity gains might be expected as a result of a larger domestic market. The only major exception seems likely to be trucking. Here, many small firms co-exist alongside large ones; an expansion of the total available market would likely favour all size categories more or less proportionately; and large firms would appear to have no significant efficiency advantages over small ones. In rail and pipeline transportation, however, as well as in telecommunications, electricity generation and distribution, gas, and water supply, there are likely to be downward-sloping cost curves and an opportunity for a wider domestic market to permit movement along those curves.

As far as we know, empirical estimates of the scope for higher efficiency at larger domestic market sizes, based on Canadian data, are available only for the electric-power industry. By way of illustration, consider Ontario Hydro. By analysing the shape of its cost curves, Daly and Rao [1983] estimated the returns to scale of Ontario Hydro at a very substantial 1.54, meaning that a 10-per-cent increase in output would raise costs by only 6 per cent.

Although their results conflicted with those of Christensen and Greene [1976], who had found only minimal scale economies, that discrepancy was very likely because, unlike their predecessors, Daly and Rao had included transmission and distribution costs in their analysis of scale economies. The cost economies in generating electric power are

exhausted at a relatively small size, whereas those in transmission and distribution stretch much further.

For the industry group as a whole, we would not expect the results to be as large as this. Population increase seems less likely to augment the efficiency of freight transport by rail and pipeline, for example, as much as that of the distribution of power through the electric grid, because rail freight and pipeline facilities appear to be closer to full capacity utilization. Duplication of facilities (e.g., double or triple tracking, extra pipelines) would be required beyond a certain point, implying that there would be no scale economies over more than a rather limited range of market-size increases. Trucking, which falls within this group, is a case where efficiency gains from a larger market size are likely to be nil. On the other hand, telephone linkages, telex and satellite telecommunications, and other industries in the sector seem likely to be similar, as far as the potential for scale gains is concerned, to electricity generation and distribution.

As a very rough estimate, we put average scale economies in this industry group as a whole at one third of the way between zero for trucking and approximately 1.6 for electricity – i.e., at 1.2. This may seem too large if we consider very large population increases. It would imply, if it were valid all the way up to a population as large as the United States, that the industry group in that country would be 50 per cent more efficient than in Canada. It may nevertheless be reasonable for more moderate changes; a doubling of industry size, when scale economies are measured at 1.2, implies a 15 per cent rise in efficiency.

Finance, Insurance, and Real Estate

This group accounts for just under 10 per cent of gross domestic product.

The Canadian *life insurance* industry has been examined by several researchers. Drawing on earlier work, Daly et al. [1984] have estimated the productivity and returns to scale of 31 federally registered Canadian companies by pooling time-series and cross-sectional data covering all but five of the companies, each of them individually and annually over the years 1961 to 1977. Like their U.S. counterparts, the Canadian companies had U-shaped cost curves, which suggests that there are scale diseconomies for both the largest and the smallest companies. The optimal size was between the two extremes: the 13 smallest were too small, and the three largest were far too large.

Daly et al. [1984] concluded from their analysis that, on average, firms in the life insurance industry were too large;

and because large firms operate in the range of diseconomies of scale, there was a negative effect on the productivity of the industry. Between the 1960s and the late 1970s, the 10 largest companies operating in the range of diseconomies of scale lost market share to the smaller firms operating in the more efficient range. This improved industry productivity. Even more important was the role of technical progress in improving productivity. The significantly increased domestic market size (in terms of business volume) was not a factor.

True, there was evidence that technological progress was faster in the larger firms, because the new technology was more advantageous to them. If this phenomenon persists, it will gradually decrease the cost disadvantage of large firms and might even reverse it. That point does not appear to have been reached yet.

For the *banking* sector of the industry, we draw upon some U.S. results. The Federal Reserve provides banks with a "functional cost analysis" service, in which they allocate costs and revenue to specific banking functions according to a standard format. Using such annual data, covering some 800 banks for the years 1975 to 1978 (the number varies between 747 and 852 banks over the period, accounting for 15 per cent of the Federal Reserve members), Benston et al. [1982] estimated the relevant cost functions. They measured output by the number of deposit and loan accounts serviced – augmented with information on the average balances of these accounts – and related it to the associated operating costs, all stratified into nine deposit-size groups.

They found that branch banks experienced diseconomies of scale – with estimates of returns to scale ranging from 0.84 to 0.91 – when deposits exceeded \$25 million per branch. With respect to the size of the accounts, branches experienced considerable economies: the larger the average size of the account, the lower the cost per account.

On the basis of their results, the authors concluded that it was "unlikely that there are large, if any, economies of scale in producing the most important banking services (business loans may be an exception)" and that "smaller banks are, at the least, *not* at an operational disadvantage with respect to large banks" [Benston et al. 1982, p. 21].

Technological progress is expected to affect future developments in this sector. While large financial institutions introduced the major planning and operations-control software on their extensive computer systems over the past decade, microcomputers will provide the same type of service for the smaller banks in the coming years. At the same time, the comparative advantages of the sophisticated

management processes of the large banks can be expected to trickle down to the small banks, making them even more competitive [Metzker 1982].

Thus, even if a large domestic market was necessary to ensure the existence of large banks or to enable them to grow disproportionately, large banks do not seem to be any more efficient than small ones.

The rest of the industry group, *real estate*, is, and always has been, characterized by large numbers of small firms. An expansion of the total domestic market seems unlikely to generate any economies of scale.

We conclude that for the industry as a whole, a larger domestic market would have no effect on industry efficiency.

Wholesale and Retail Trade, Business and Personal Private-Sector Services

Together, this group and the next (health, education, and public administration/defence) account for nearly 40 per cent of gross domestic product. We have lumped trade and private services together in this group because in the relevant analytical respects, for our purposes, they are very similar.

A majority of the industries within the group contain large numbers of small firms, sometimes co-existing with a few large firms, sometimes not. The only significant exceptions are franchise and chain operations, which are important in certain parts of retail-trade and food services. Business and personal services are a large and fast-growing sector; they include all kinds of independent professionals (accountants, lawyers, engineers, business consultants, and so on) and a vast number of minor activities.

The industries of this group are nearly all classifiable into a category to which economists give the technical term "monopolistic competition." In industries characterized by monopolistic competition, there are large numbers of firms producing similar, but not identical, products or services. If it could find more customers, every individual firm could benefit, in terms of efficiency, by spreading its fixed costs more and moving down its cost curve. At the same time, an expansion in the size of such industries, whether caused by a larger total domestic market or otherwise, rarely brings this about. Instead, it results in a blossoming of more firms, similar in size and efficiency to the original ones. Only in exceptional cases – where a strictly limited number of differentiated products and processes is possible, so that market

expansion can lead to growth in the size of existing firms rather than to their duplication – will costs be reduced. Legal firms may be a case in point.

Chains and franchises are the most significant exception to the categorization of this industry group as monopolistically competitive. They are usually classifiable as oligopolistic, different from monopolistic competition in that only a few firms compete in producing a given type of product or service. They are a relatively recent development. The large chains and franchise groups are definitely more efficient than the independents they replace.

The case of the drugstore industry in the United States has been well studied, and can serve as an example. Labour productivity in that industry rose at an average annual rate of 4.6 per cent between 1958 and 1979 – well above the 2.0-per-cent average of the nonfarm business sector [Friedman 1980]. Much of this productivity growth coincided with the expansion in drugstore chain operations. The chains enjoyed efficiency advantages and made it possible for individual drugstores to be larger and more efficient. There was a corresponding decline in the number of small, marginal stores. This process accelerated during the 1960s and early 1970s, and slowed down in later years.

In 1958, the small independent drugstores accounted for nearly 80 per cent of the industry's sales; the chain stores, for only 20 per cent. During the years from 1958 to 1966, the chains were opening from 700 to 1,000 new stores every year, and that pace actually accelerated in the late 1960s and early 1970s. By 1967, the market share of the independents had fallen below 70 per cent; by 1977, it had dropped below 50 per cent. Evidence that it is the growing domination of the chains that spurred productivity growth is available. In the early 1970s, for example, the independents averaged \$175,000 in annual sales, compared with \$250,000 for the affiliated chain stores.

The productivity improvements came with the computerization of inventory control, central purchasing, and warehousing. We have made no attempt to estimate what part of the productivity gains could not have been achieved if the total size of the market had been much smaller.

In general, it is difficult to know whether the Canadian market is already large enough to capture all of the efficiency gains that the chain and franchise technology can offer, especially as the emergence of the latter is relatively recent. Our judgment, based on common observation of the widespread success of such operations in Canada, is that a domestic market as large as Canada's is already big enough in most cases.

Bearing this last point in mind and recalling the monopolistically competitive nature of most of the other industries in the group, we set our estimate of scale economies at zero for the group as a whole. While there is obviously much scope for productivity improvement, it does not appear that growth in the size of the domestic market would be particularly helpful in this regard.

Health, Education, and Public Administration/Defence

As mentioned previously, this and the preceding group, together, account for nearly 40 per cent of gross domestic product.

It is traditional in this sector to point to certain pure "public goods," which can be delivered more cheaply on a per-capita basis when the population is large. We considered this possibility but rejected it as quantitatively insignificant. A comparison with the United States suggested to us that the single most commonly cited example of importance – the defence system – was invalid. The U.S. defence establishment is much larger than Canada's, and it seems to us that any substantial growth in the Canadian population would, over the long haul, lead to a roughly proportional increase in the defence establishment here. If so, no cheapening of defence costs per capita would occur; hence no scale economies would be reaped. This kind of reasoning was true of virtually all alleged "public goods" in the public administration/defence industry. An exception would be public administration in the smaller provincial governments. Prince Edward Island, for example, has a panoply of services for only 130,000 people. However, the proportion of GDP that is accounted for by expenditures on public administration in the smaller provincial jurisdictions is so small that it would probably have only a negligible effect on an estimate of scale economies for the group as a whole.

In the health and education industries, we see no reason, theoretical or empirical, to expect scale economies if population grows. We thus set scale economies for the group as a whole as essentially zero.

Owner-Occupied Dwellings

These account for just over 5 per cent of gross domestic product; there are clearly no scale economies here.

Summary

These observations on the various industries are summarized in Table 3-2, which lists every industry group, its

Table 3-2**Scale Economies Achievable from Increased Domestic Market Size, by Industry Group**

	Proportion of gross domestic product, 1989	Scale economies ¹
	(Per cent)	
Agriculture, forestry, fishery, and mining	9	—
Construction	8	—
Manufacturing	19	1.03
Transport, communications, and public utilities	11	1.20
Finance, insurance, and real estate	9	—
Wholesale and retail trade, business and personal private-sector services	38	—
Health, education, public administration, and defence		
Owner-occupied dwellings	6	—
All industries, weighted average	100	1.03

1 The measure of scale economies is the conventional one: let output y be a function of inputs $V_1, V_2 \dots V_n$, and suppose that all inputs are to be multiplied by $1 + k$. Then, if y rises by a factor $(1 + k)^\theta$, θ is the measure of scale economies, and $\theta = 1$ implies constant returns (i.e., no scale economies).

SOURCE Data from Statistics Canada, and estimates by the Economic Council.

percentage of gross domestic product, and our evaluation of what scale economies in that group might be. We see that over a large fraction of GDP – 70 per cent, in fact – scale economies are evaluated at zero. We have potentially significant scale economies only in the manufacturing industry and in the transport, communications, and utilities industry. Taking an average of all industries in the economy, we arrive at a scale factor of 1.03. This would imply that, for an immigration-induced population increase of one million, national average productivity would rise by 0.1 per cent. This is actually considerably smaller than the result in the previous section (0.3 per cent), based on an international cross-sectional analysis. It increases our con-

fidence that the effects are very small, but it does leave some uncertainty about just how small they are.

Labour Market Gaps

Shortages of workers in particular occupations appear from time to time. An oft-cited benefit of immigration is that it can enable employers to fill such labour market gaps faster or at less cost than through the existing labour market. The argument is plausible *prima facie*, but it turns out, on reflection, to present two major difficulties.

One follows from the fact that there are both gainers and losers. Employers who face shortages of workers in particular occupations will benefit. Consumers of those goods and services which need the occupations in short supply will also gain. Existing workers, on the other hand, will lose, for the immigrants weaken their bargaining position.

The first difficulty, then, with respect to the use of immigration to fill labour-market gaps, is in finding out who gains and who loses, and in deciding whether or not the gains to the gainers compensate for the losses to the losers.

The second difficulty is more mundane but may be more fundamental. It arises when we consider whether gap-filling is practical as a policy. Two kinds of question emerge here. Can a labour market gap be satisfactorily defined for operational purposes? Does a gap exist, for example, if vacancies are above normal? If wages are above normal? If unemployment is below normal? If there is some combination of all three? If a workable definition of a gap is possible, are there sufficient data, or can sufficient data be developed at reasonable cost, for immigration officials to detect gaps in a timely fashion and carry out a strategy of labour market gap-filling?

Coming to grips with these two difficulties proved unexpectedly troublesome. With respect to the first, it seems clear from our analysis that there is a net gain, averaged over the losers and gainers. Obtaining quantitative estimates of its actual size, however, has not been possible; but it is possible to say that the gain is likely to be extremely small, compared with the gains estimated above from scale economies. That it seems large to many is a consequence of focusing on the gains to employers and consumers, while forgetting the losses to existing Canadian workers.

Consider, for example, the shortage of university teachers in the late 1960s and early 1970s. The shortage arose with the coming of age of the baby-boom generation, combined with an increased propensity to attend college.

The gap was partly met by an increased number of university professors who immigrated to this country. The consumers of education, university students, presumably gained. Classes were smaller than without immigrants, and the variety of offerings available was greater. Yet there seems to be no way, in the present state of economic knowledge and statistical information, of putting a dollar-and-cents value on that consumer gain. A monumental research effort, not warranted for this study, would be required. Calculating the gains would require estimates not only of the impact on class sizes, the variety of offerings, and possibly the quality of teaching, but also of how long it would have taken the system to adjust by increased domestic training of professors.

The losses to native-born professors, existing and potential, would be equally difficult to compute. While it is possible to demonstrate, with subtle economic reasoning, that the dollar value of the gains to consumers, whatever it might be, exceeded that of the losses to Canadian-born professors, existing and potential, with whom the immigrants came into competition, this is less useful than knowing how much the excess was and how big the respective gains and losses were. Problematical, too, is whether in later years the immigration led to an excess supply of professors, the deleterious effects of which should be taken into account. The possibility of an excess supply is not simply a matter of erroneous planning by education authorities or wrong career decisions by individuals, it is also intrinsic to immigration being an asymmetric policy tool. Extra professors can be brought in when there is a shortage, but they cannot be expelled when a surplus develops later on.

What is true of professors is also true generally. Quantitative estimates of the economic gains to the hosts from using immigration to fill labour market gaps do not seem to be feasible.

As it happens, the inability to calculate the gains from gap-filling is, in any case, irrelevant from a policy perspective. Even if potential gains were large, they could never be intentionally realized through policy action if labour market gaps could not usually be reliably detected. As our evidence strongly suggests, that is indeed the case. Except in rare instances – the professor shortage is one – labour market gaps cannot, in fact, be reliably detected.

Some of the problems are practical ones. These could be solved, in principle, by providing enough money, although without knowing the benefits of such a policy it is hard to know how much money would be justified. The practical problems include: the absence of a proper vacancy survey; insufficiently fine regional and occupational breakdowns

of unemployment rates; inadequate data on occupational wage rates; and time lags in the availability of such data as do exist. Other problems arise from an inadequate understanding, at this stage in the historical development of economics, of how the labour market works. Problems of this kind cannot be solved by throwing money at them but only by devoting much more time to understanding them. The inability to forecast labour market requirements is a particularly weak area of economics, whether it is cyclical or secular trends that are in question. It is precisely the ability to make such forecasts that is needed for a solidly based policy of using immigration to fill labour market gaps.

A survey of the history of immigration policy suggests that gap-filling has never been a dominant motive. That is surely not accidental, given the difficulties described. Only on rare occasions, when a shortage was so dire that no one could miss it – as with university teachers in the 1960s and 1970s – has it proved possible successfully to fill labour market gaps through immigration.

An important corollary follows. It makes little sense to have an “open list” of occupations or to allot points (including zero) to each and every four-digit occupation. Requiring officials to provide such a list is like ordering *filet mignon* at McDonald’s: it shows impeccable taste but questionable judgment. A different approach would seem more reasonable, with all occupations being open. Even occupational bonus points should be given only occasionally, when the evidence is very solid that a shortage exists. Similarly, negative bonus points should only be allotted when there is solid evidence of a surplus. The practice of reserving a portion of the 100 selection points exclusively to reflect the gap-filling function should be dropped.

That is not to say that occupational status may not be a useful point-earning classification for other reasons. If occupational status, perhaps quite broadly defined, were a good measure of the ability to “fit in” socially or of general economic adaptability, then it would be quite acceptable.

Spillover Effects

Scale effects on efficiency occur simply as a consequence of an increase in the number of people, regardless of their individual characteristics. It is often argued that what is important about immigrants is that they are different from residents and that the differences are such as to enhance economic efficiency. The idea comes up in many different forms. Assertions are made such as: “immigrants put more in than they take out”; “immigrants add dynamism to the economy”; “immigrants, by working harder, smarter, and

longer, benefit all of us"; "immigrants bring new ideas, new ways, and we are all better off as a result." What seems to be in question here is not the occasional benefits resulting from the complementarity of immigrant inputs with local labour or capital inputs, but the spillover effects onto either the level or the rate of growth of total factor productivity.

Care is needed not to confuse this effect with the simple fact that immigrants might earn more than native-born Canadians of comparable education and training. If immigrants do work harder, have more ideas, are better entrepreneurs, and so on, all of this will surely show up in their earnings, according to both common sense and standard economic theory. Immigrants will then add to national output more than seemingly similarly qualified native-born workers, but this time economic theory perhaps differs from at least casual common sense, in that it asserts that *there is no reason to expect that the hosts themselves will earn more as a result*. Putting it technically, there is no reason to expect spillover according to standard production-function analysis.

This conclusion is reinforced by a review of the literature on the brain drain, which deals with the possibility of negative spillover effects for residents of countries experiencing emigration, as a consequence of the loss of the emigrants' human capital. Only a small minority of professional writers appear to consider that large brain-drain spillover effects exist, and many analysts believe that zero spillover is an excellent first approximation. Perhaps a majority would accept small negative spillover effects in the sending countries and – by implication only – small positive spillover effects in the receiving countries.

Potential spillover effects from the characteristics of immigrants – other than their human-capital endowment, such as their work habits, their propensity to innovate, and their drive to achieve – have not been directly analysed, either theoretically or empirically, to our knowledge. The absence of such investigation is itself a strong argument for the intrinsic implausibility of the hypothesis that spillover effects exist, just as the absence of serious medical investigation of Laetrile argues for the intrinsic implausibility of the hypothesis that Laetrile cures cancer.

Some very strong indirect evidence, however, does exist. It suggests that there are no significant permanent effects. If immigrants contributed more than they were paid – and that is the only empirical meaning that can be attached to spillover – this is, logically, exactly the same as saying that they are paid less than they contribute or than they are worth. Much economic analysis has been done to test whether other groups are paid less than their worth; women

and blacks, in particular, have been intensively investigated with this in mind. The evidence of discrimination in those cases is quite strong. Moreover, the same methodology as used in these earlier investigations, when applied in Chapter 7 below, reveals that female immigrants and Canadian-born women both earn significantly less than their male counterparts, even after every measurable difference in qualifications has been taken into account. These results are closely in line with a vast amount of previous work. Women earn less than they appear to be worth – i.e., they contribute more than they are paid.

The very same methodology (actually the same equations) can be used to test if immigrants earn less than they are worth. When this test is applied, there is no evidence that immigrants permanently earn less than native-born Canadians – i.e., that they are permanently worth more than they are paid. Our confidence in this result is greatly increased by the fact that the same methodology gives the "normal" results in the case of females. There is a temporary effect, which could be because of spillovers or because their qualifications are intrinsically inferior. The regression analysis was unfortunately unable to tell which.

It would still be desirable, therefore, to undertake direct empirical investigation of the spillover hypothesis, for it is so tenaciously held. One idea, if the data could be obtained, would be to see if international differences in the growth rates or the levels of GNP per capita can be explained in part by the proportion of native-born in the population. Our investigation of this possibility revealed that collecting the data to test it would be technically possible but too expensive in time and resources.

Three Objections to the Efficiency Analysis

Three objections might be made to our treatment of the effects of immigration on economic efficiency in the host community. They pertain to the impact that immigrants have on the economy-wide stock of human capital and of physical capital, and to the consequences that the entrepreneur immigrant category has on increasing the domestic supply of entrepreneurship. In all cases, we conclude that the main effects envisaged will not appear, for different reasons in each case.

Human Capital

The proposition here is that immigrants come already educated, so that as taxpayers, we do not have to pay for

their education. Thus high school graduates are worth many thousands of dollars to the economy; and professionally trained people, hundreds of thousands of dollars. There is a “brain gain,” and this adds to the productivity and efficiency of the economy. Correspondingly, there is a loss, in the form of a “brain drain,” by the sending countries, of which Canada is thus taking advantage.

The main flaw in that argument, as usually expressed, is that it makes use of a falsely anthropomorphic view of “the economy.” If we replace the words “the economy” by the words “individuals in Canada,” and then distinguish, as we should, between hosts and newcomers among these individuals, it becomes apparent that while the hosts do not pay for immigrants’ education, neither do they receive any benefit from it. When an immigrant comes, he or she retains title to his or her own human capital and to all the earnings it brings. A possible exception to this reasoning is that an economy might need a critical mass of skills. In a very small economy, one engineer might raise everyone’s standard of living even if he received most of the higher income. The example of Iceland, with a living standard comparable to Western Europe but with only 300,000 people, suggests that the critical-mass argument, if true, would probably not apply to Canada today.

Even with the distinction properly made between hosts and newcomers, the argument can easily be faulty, subject to the fallacy of *petitio principii*. If one starts from the *presumption* that more population is economically beneficial, then it is cheaper to obtain that benefit by bringing in adults than to have to pay to rear children. If children could be born into the world already 21 years old and fully educated, we would all be financially better off. But the point of our analysis is to *discover* whether more population is (economically) good; it is logically incorrect to build in such a conclusion from the start.

The fact that an argument is fallacious in the main ways in which it is usually expressed does not imply that it cannot be made in a nonfallacious way. That is true for the brain-drain argument: it can be put in a form that it is logically sound and in principle testable. In that form, it is one variant of the spillover hypothesis discussed in the previous section. As noted there, the conclusions reached from the voluminous literature on the topic are somewhat uncertain, but they lean in favour of the view that the effects are small or nil.

Financial and Physical Capital

Two quite separate arguments have been made in connection with capital – one concerning the money capital that

immigrants may bring, the other concerning the effects that they may have in “diluting” the pre-existing stock of physical capital in the economy.

Financial Capital

Under general immigration rules, immigrants are allowed into Canada if they promise to bring capital of a certain amount and to invest it in a business in Canada. It is a common belief that more capital must be good for Canada, with the result that this immigration category commands considerable support. At the same time, some resent the rule as unfairly allowing people to “buy” their way into Canada.

The main flow of the argument is similar to that covered above with respect to human capital. To argue that “the economy” benefits from the influx of *money* capital is to fail to make an essential distinction between two groups of individuals in that economy – the immigrants and the hosts. The immigrants retain ownership of their money capital and of any earnings it makes, whether they invest it in their own businesses or perhaps lend it to hosts. The hosts get nothing, unless either capital markets are so imperfect that an additional domestic source of loanable funds is needed (in today’s global world, that seems overwhelmingly improbable) or unless immigrants are obliged to accept a lower-than-market return on their investment.

A second flaw in the argument is that there is no reason to expect that the capital that is brought into the country, or the businesses it is invested in, will represent a net addition to the supply of capital and new businesses. To use the technical term, the capital is not likely to be “incremental” to the economy. The presumption of standard economic theory is that an excellent national and international market for capital exists, so that any projects in Canada that are viable will be able to obtain capital, domestically or internationally, at going rates. If they are not viable enough to pay those rates, it would actually make the economy less efficient to encourage them. However, despite the existence of excellent capital markets, pockets of genuine shortage might still occur. If workable procedures could be designed to detect them and to have investor immigrants finance projects that would otherwise not be undertaken, a gain to the hosts would occur. We cannot rule out the potential for this kind of gain, but we judge that it is probably rather small.

Physical Capital

Two variants of this argument have been put forward from time to time. First, the overall capital/labour ratio may

be changed by immigration – upward if immigrants own more capital than hosts, on average; downward, if they have less capital than hosts. Since the efficiency of labour is affected by the capital/labour ratio, there is a potential here for raising or lowering its efficiency. However, the argument supposes that the international market for capital is not efficient enough for Canada to reach the optimal capital/labour ratio, regardless of the part of the capital stock that is immigrant-owned. As globalization grows, that assumption seems dubious – and increasingly so as time passes. Nonetheless, tests were conducted to determine whether immigration-induced changes in the overall capital/labour ratio might cause efficiency effects large enough to modify our earlier conclusions regarding scale economies. These tests were necessarily approximate, because of limitations of data and research resources. They nonetheless suggest that no important effects are being missed in our estimates.

Second, an argument of great subtlety has been made by Usher [1977]: immigrants, in effect, decrease the capital available per resident, thereby decreasing real disposable income per resident. While this is not an efficiency issue so much as a distributional issue, it is convenient to discuss this argument here.

The argument, put briefly – and, we hope, not misleadingly – is as follows. Immigrants gain automatic title to any collectively owned capital when they arrive. That includes two main categories – one is the physical capital in place, such as highways, ports, and the like; the other is the summed discounted value of the revenues from future corporation taxes, which belong collectively to the community. Immigrant ownership “waters down” the ownership of the physical capital, and it also increases the need for future government expenditures, because the population is larger as a result of the presence of the immigrants, for which corporate taxes pay in part, without increasing the corporate tax revenues themselves.

Simon [1989] has considered the argument in detail, and rejects it almost totally. We agree with Simon, but can only give a few indications as to why. Going deeply into the matter would take too much space.

On corporate taxes, Usher’s implicit presumption that future corporate tax revenues will not rise as a necessary consequence of the immigration itself seems likely to be wrong. Immigrants will be employed, and if their employment is in the private sector, it will necessitate a growth in the number or size of firms and, correspondingly, in corporate tax revenues. Only if immigrants were significantly less prone to employment than residents – but we know that the opposite is true – or if they disproportionately went into

government employment, where corporate taxes are not collected (Simon investigated this possibility), could the Usher argument hold, and then only partially. In our view, therefore, the Usher effect of watering down title to the future flow of corporate tax receipts is not likely to be quantitatively important.

As far as watering down the ownership of physical capital is concerned, there might be short-term effects, but if immigration were raised permanently, tax collections from the immigrants themselves would serve to pay for the extensions needed to publicly provided physical infrastructure. If the number of immigrants grew continuously – as it normally would in an expanding economy – there could be a series of impacts, causing a permanent steady loss of physical capital as a percentage of gross domestic product, effectively in the nature of a permanent transfer from hosts to immigrants. Crude calculations suggest that such a loss, if it occurred, would be much smaller than the scale effects discussed above.

Entrepreneurship

Immigrants can come into Canada not only as investors, but also if they promise to set up a business of their own, under certain conditions. More entrepreneurship is seen as unambiguously good for Canada, partly because it is thought to create needed jobs, and partly because it is thought to enhance efficiency.

There are problems with both arguments. The first – on jobs – is discussed briefly in the next chapter and is found wanting. With regard to the second, we would make a similar comment as we made, with respect to capital, about the issue of incrementality. It is necessary to prove incrementality rather than to simply assume it. Would the number of businesses have been lower, or would existing businesses have failed to grow enough, in the absence of the immigrant entrepreneurs? Much logic and economic theory suggests otherwise, as well as some tentative evidence, cited in Chapter 5. Put another way, while “entrepreneurship” is a fashionable buzzword, there is no evidence of a shortage of resident entrepreneurs that immigration is needed to fill.

Another argument is that immigrant entrepreneurs are better than local ones and that this benefits the economy. If this were true – and we remain open-minded on that subject – the analysis above in connection with “spillover” and human capital effects suggests that the main result would be to increase the earnings of the immigrant entrepreneurs above those of apparently similarly able local entrepreneurs.

Just as with immigrants in general, there is no clear rationale for supposing that any spillover effects to the rest of the community would occur, though they cannot be entirely ruled out in the present state of knowledge.

Conclusions

In contrast to previous investigators in Canada and Australia, we do find that immigration enhances economic efficiency within the host community. The effects flow almost exclusively from the greater size of population that immi-

gration brings. Scale economies result, and these benefit everyone – hosts and immigrants alike. No other efficiency effects of immigration appear to be important.

The effects, though positive, are very small if viewed as so many dollars per Canadian per million immigrants. They are reasonably substantial if they are viewed as equivalent to a capital sum that each immigrant family would “donate” to the rest of us by its presence in Canada.

Our view is that the first perspective is the proper one; the gross efficiency gains are positive but very small.

4 Tax and Dependency Burden

There is an apprehension, today, that a demographic “San Andreas fault” runs beneath the economies of the West. The baby boom of the past has given way to the “baby bust” of today, and the impact of this rapid transition from younger to older populations will soon shake the industrialized economies everywhere. The first gentle tremors are already being felt, and unless there is a sustained upswing in birth rates in western countries soon, they will strike with ever greater force later [Richman 1990].

The crux of the problem lies in the fact that in the future, there will be too many retirees who will need care and services and not enough workers to finance those needs. Over the next several decades, the populations of the major industrialized countries will “turn grey.” By the year 2030, people over the age of 65 could well account for 22 per cent of the population in the seven largest western economies – up from 12.5 per cent today [Richman 1990]. Among the many concerns raised by these prospects are two that matter here:

- Spiralling social costs: By 2025, the ratio of pensioners (60 years and over) to all workers will have roughly doubled in Japan, the United States, and Germany. By then, the elderly in the United States could consume half of the U.S. federal budget if today’s benefit system is kept in place. In Italy, spending on pensions could increase fivefold.
- Growing tax burdens: If the economic systems are not to collapse under the combined pressure of government deficits, inflation, and higher interest rates, taxes will have to be raised substantially.

The hardest shocks will be felt in Japan. That country’s elderly population is growing twice as fast as that of Germany, and six times as fast as that of the United States. By the turn of the century, the Japanese people will be the “oldest” nation in the world. As for Germany, its birth rate is so low that if that trend were to continue, it would lead to the extinction of its native-born population [Richman 1990].

The situation in North America is far less dramatic, for the time being. The region’s working-age population during the 1990s will be larger than it has ever been in the past, and the proportion of pensioners will decline, at least for a

while. This is attributable mainly to the higher birth rates and higher rates of immigration that rejuvenated the population during the postwar period. The danger, however, is that the present favourable situation will lull North Americans into an unwarranted sense of complacency. Problems do emerge even here; they just strike a little later.

Immigration might help to alleviate the emerging dependency problem, as immigrants tend to be concentrated in the working-age groups more than do the native-born. At the same time, however, that contribution may be less than one might think: not only do many immigrants also have children after they arrive in this country, but like the rest of us, they age and grow old; on both counts, they raise government expenditures as well as tax revenues. Thus the age distribution of immigrants at entry is not an infallible guide to the impact of immigration on either the proportion of the working-age population over the long term or the tax burden of providing for the old and the young.

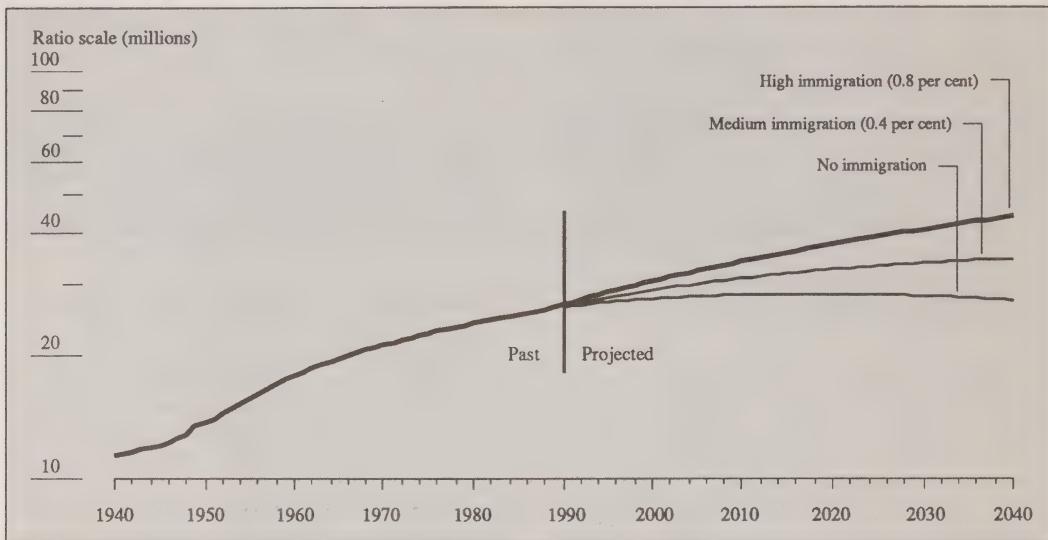
To estimate as accurately as possible the net effect of immigration on the future tax burden, we have carried out detailed intertemporal simulations. The basic purpose was to find out how much per-capita taxes could be lowered purely as a result of immigration changing the age distribution: changes in the age distribution affect the amount that needs to be spent on certain programs – notably health, education, and income security; thus the amount of taxes needed to pay for such programs – the “burden” that they represent for taxpayers – is potentially sensitive to immigration levels.

Canada’s Demographic Development

Over the past four decades, Canada’s population has roughly doubled – growing from 12.3 million people in 1946 to 25.3 million people in 1986. Its growth over the next four decades is expected to be much slower. If one assumes a slow-growth scenario – with a low fertility rate of 1.7 children per woman and no immigration or emigration – the population will expand slowly, reaching 28.3 million by the year 2015, and will decline slowly thereafter (Chart 4-1). If, on the other hand, past rates of immigration are extended into the future, Canada’s population will continue to grow, but that growth will continue

Chart 4-1

Population, Past and Projected, Canada, 1940-2040 (under Three Net-Immigration Scenarios)



SOURCE Data from Statistics Canada, and estimates by the Economic Council.

to slow down. Under that medium-growth scenario – with the same fertility rate as above but with an annual net immigration rate of 0.4 per cent of the population, which would be equivalent to roughly 100,000 immigrants at today's population size – the total would reach 32 million in 2015 and 35 million by the year 2040. Under a fast-growth scenario – with the same fertility rate but a higher net immigration rate of 0.8 per cent, or 200,000 immigrants per year – the Canadian population would grow more rapidly, reaching 36 million by the year 2015 and 44 million by 2040.

While changes in fertility rates over the next decade will affect the future size of the younger age groups, they cannot affect that of the elderly – i.e., those aged 65 years and over – because those who by the year 2040 will be in that group were born in 1975 or earlier. As a consequence, the number of the elderly during the projection period – from now to the year 2040 – will be governed solely by variations in life expectancy and rates of immigration.

Measuring the “Dependency Burden”

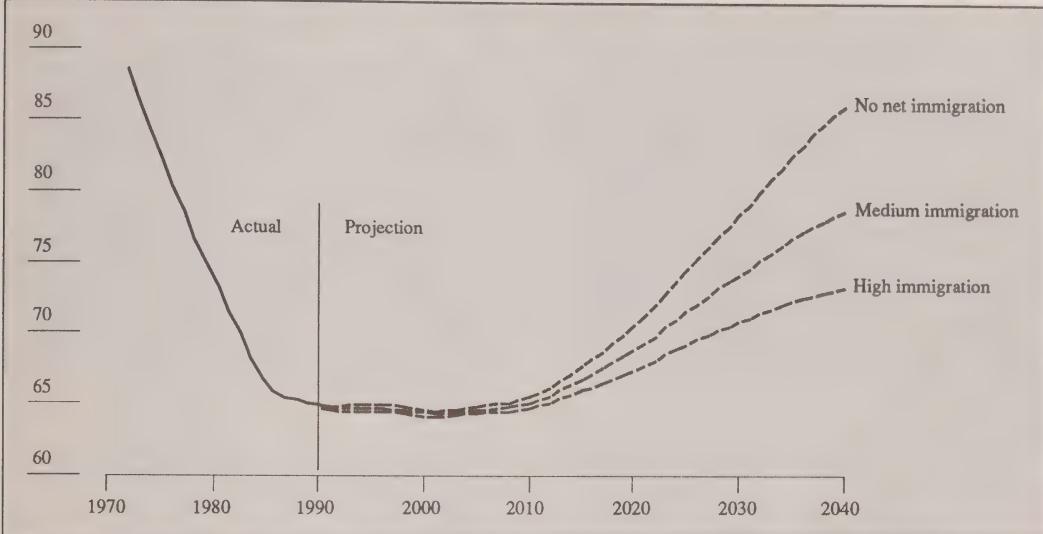
Canada's population will continue to age over the next several decades, whatever demographic-growth scenario

eventually materializes. That aging trend started about two decades ago, when the baby boom suddenly came to an end. Today, Canada's elderly number about 3 million, accounting for roughly 11 per cent of the total population. By the year 2015, their number will have risen to 5.1 million people (16 per cent) if one assumes a medium rate of immigration over the intervening period, and to 5.5 million (15 per cent) under a faster rate of immigration. By the year 2040, the corresponding numbers will be 7.6 million (22 per cent) and 8.4 million (19 per cent).

These figures imply that a faster rate of immigration will lower the share of the elderly in the population, albeit only modestly. As noted, this is because most immigrants enter Canada when they are in their 20s and 30s, either single or as young family members, thereby enlarging the share of the younger age groups in the population.

Numerical Dependency Ratios

Traditionally, demographers have captured the changing proportions of the younger and older age groups in a single measure – the “dependency ratio.” That measure combines both the young and the old, and compares their total number

Chart 4-2**Simple Dependency Ratios,¹ 1972-89 and 1990-2040 (under Three Immigration Scenarios)²**

1 Expressed as the number of young (aged 0 to 19) and elderly (aged 65 and over) per 100 persons aged from 20 to 64.

2 Medium immigration is set at 0.4 per cent of the population per year; the high-immigration assumption is 0.8 per cent.

SOURCE Estimates by the Economic Council, based on data from Statistics Canada.

to that of the working-age population. Both young and old are included because both contribute to the dependency burden – the young mainly because of the cost of education and the old mainly because of the cost of health care. The resulting dependency ratio gives an indication of the number of dependents that must be “carried” by each member of the working-age population.

Historically, Canada’s dependency ratios diminished from very high levels in 1850 to a low in the 1930s, rising during the postwar years of the baby boom to reach a new high in the early 1960s; they have since dropped sharply and have settled at a low plateau. At present, the dependency ratio is 65; in other words, 100 persons of working age “carry,” on average, 65 persons of the younger and older age groups. Irrespective of the rates of immigration, the dependency ratios will remain at roughly the same level over the next two decades. Under either the slow or the fast population-growth scenario, they will not change much until well into the 21st century, when the baby boomers of the 1950s and early 1960s will create a wave of old-age pensioners three to four decades from now (Chart 4-2). If there is no rise in the birth rate between now and the year 2040, the dependency

ratio will be substantially higher than it is now; it will be higher still if there is no immigration.

Numerical dependency ratios are not sensitive to variations in the proportions of younger and older dependents. This would not matter much if the expenditures for both were the same. But there is evidence that per-person government expenditures for the elderly are much higher than those for the young. Thus the fact that Chart 4-2 shows dependency ratios as high in the 1970s as in the 2030s does not mean there is no problem ahead. The high ratios of the 1970s were associated much more with the presence of children than of old people, and so they were much less costly in terms of their tax implications.

Similarly, the high numerical dependency ratios of the past century are not a good guide to what, 25 or 50 years from now, will be considered a socially tolerable size of the dependency burden. In fact, in the 19th century children were often an asset in the agricultural sector, which dominated the labour force at that time. All of this means that it is better to look at the dependency burden, not in terms of dependency ratios but by measuring directly what happens

to the tax burden borne by taxpayers as both the age distribution and immigration levels change.

Effects of Age-Distribution Changes on the Tax Burden

In analysing the impact of immigration on the tax burden of the future population, we focus on three areas of public expenditures – health, education, and social services. We selected these three categories because each is large and each varies substantially with the age distribution and can therefore be influenced by alterations to the age distribution created by changes in immigration. A substantial portion of health-care expenditures, for example, is targeted at the youngest and oldest age groups; most of the educational expenditures go to the school-age population; and the expenditures on social services tend to be aimed at selected younger and older age groups. In 1985, each of the three expenditure categories amounted to over \$25 billion; along with the interest payments on the national debt, they led the consolidated federal/provincial government expenditures (Table 4-1).

We begin our analysis by finding out how much was spent per capita, for each age/sex group, on health, education, and social programs, for the latest year available (1985). Adding up over all age/sex groups in 1985 provides the total amount spent on the three programs that year. That expenditure defines the total amount of taxes needed to pay for those programs in 1985 – i.e., their tax “burden.”

We then move forward from 1985, simulating population growth through 1990 and into the future. As we do so, the numbers of people in each age/sex group change. They rise more quickly for the old than for the young (Chart 4-3). As a result of those changes, total expenditures on health, education, and social programs change even if, as we assume for purposes of the analysis, there is no change whatsoever from 1985 levels in the per-capita amounts being spent for each separate age/sex group. Thus the total amount of taxes needed to pay for the three programs changes – i.e., the “dependency burden” changes. In fact, the burden rises, and the amount by which it rises can be calculated. The result is a rather precise measure of the degree to which the dependency burden will rise purely as a consequence of demographic shifts.

We perform this whole simulation exercise twice over, once for each of two projected annual levels of net immigration (0.4 per cent and 0.8 per cent of the population). The difference in the tax burden between the two simulations then gives us an excellent measure of how much an increase in immigration might lighten the tax burden of

Table 4-1**Consolidated Government Expenditures, Canada, 1985**

	Amount (Billions of dollars)	Distribution (Per cent)
Social services	53.1	23.5
Debt charges	35.6	15.7
Education	28.5	12.6
Health	27.3	12.1
Protection (military and police)	17.9	7.9
Resource conservation and industrial development	15.3	6.8
General services	12.8	5.7
Transportation	12.6	5.6
Transfers to enterprises	5.2	2.3
Recreation and culture	4.7	2.1
Environment	4.2	1.9
Housing	2.5	1.1
Foreign affairs	2.0	0.9
Labour employment and management	1.7	0.8
Research establishment	1.3	0.6
Regional planning and development	1.1	0.5
Other expenditures	0.4	0.2
Total	226.2	100.0

SOURCE Estimates by the Economic Council, based on published data and special tabulations by Statistics Canada.

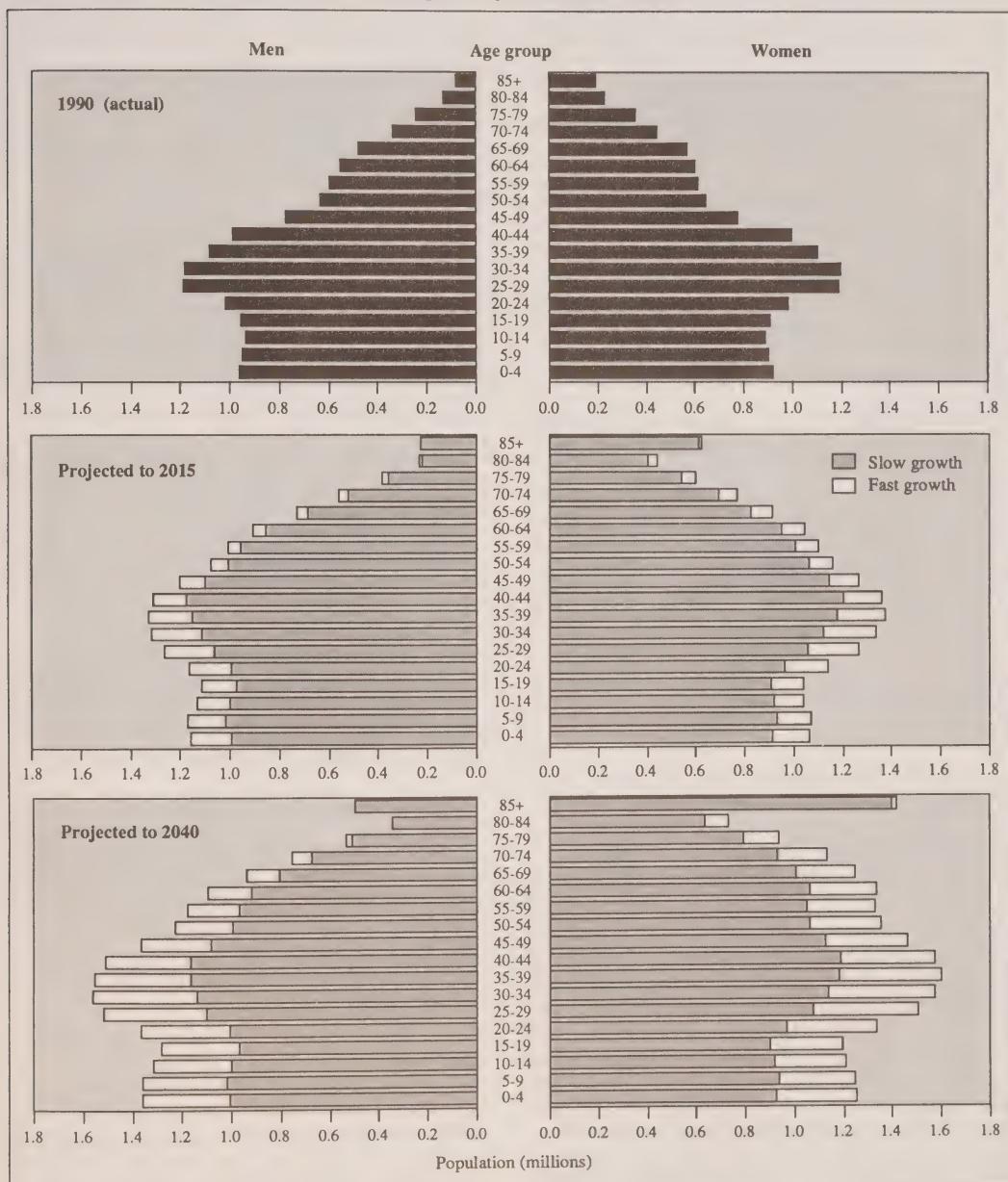
dependency. The results are available on a yearly basis, all the way out to 2040.

We note parenthetically that the actual future tax burden of these three program areas, as opposed to the hypothetical one in our simulations, will change for many other reasons than shifts in the age distribution. Those reasons include increases in medical costs, changes in the rate of participation in university education, technological development, policy shifts, and so on. All such changes will alter per-capita expenditures on the three programs within each age/sex group – and therefore the total burden. We deliberately ignore such effects even though we know they will occur, in order to isolate the “pure” demographic effect. We do that, in turn, because it is the only effect that can be influenced significantly through a change in the level of immigration.

Two small refinements and one caveat should be noted before we go on to discuss in more detail the three expenditure

Chart 4-3

Population, Actual and Projected, by Sex and Age Group, Canada, 1990-2040



SOURCE Estimates by the Economic Council.

categories examined. First, it is not only per-capita expenditures that can sometimes vary by age/sex group. Per-capita tax collections also vary in this way. We allowed for the most important possibility here, namely that personal income tax collections per capita will vary by age/sex group. Thus in calculating the moderating effect of immigration on the increase in the tax burden of dependency, we incorporated the effect of immigration-caused age-distribution shifts on personal income tax collections.

Second, since our interest is in the degree to which increases in immigration might ease increases in the tax burden, we cannot ignore any extra governmental expenditures that will be required in order to bring more immigrants in. Those extra costs must be subtracted from the savings; they include higher spending on language training, increases in welfare payments for immigrants and in the resources put into the various immigration departments, and so on.

The caveat is that in doing our simulations, we did not consider any types of change in immigration other than permanent shifts in its level. More complicated patterns of change – such as increasing immigration temporarily during certain periods and then cutting it sharply later – can be devised. Complex policies like this permit much greater leverage over the dependency burden. We ruled them out as unrealistic options in political and human terms, although some reputable authorities would disagree [Foot 1986].

Detailed Expenditure and Tax Patterns

Canadians have entrusted their governments with the task of providing education for the young, health care for the young and the old, and income support for the elderly and the poor. In addition, governments have a mandate to stabilize the economy and help provide job opportunities.

Over the past several decades, public expenditures have increased dramatically. During the late 1950s and throughout the 1960s, the federal government and the provinces worked together to build a more elaborate social infrastructure. They instituted universal hospital and medical insurance, the Canada and Quebec Pension Plans, the Canada Assistance Plan, and postsecondary education grants. The 1970s and 1980s were years of slower growth and higher inflation, higher levels of unemployment, more intensive health care, and increased expenditures on pensions – all elements that added to government expenditures, even though few major new programs were actually introduced.

Education

Ever since Confederation, the provinces have had jurisdiction over education and, to this day, have borne most of the costs. But the federal government is also involved. This involvement typically provides a fiscal contribution for such educational programs as technical and vocational training, student aid, and bilingualism [Wuester 1985]. As well, it provides for block funding of health and postsecondary education, thus giving the provinces flexibility within and between programs.

Enrolment in elementary and secondary schools has declined steadily over the years. In line with the levelling-out of the birth rate, however, it arrived at a plateau of about 5 million students in 1985. Full-time postsecondary and college enrolment has held fairly steady at nearly 800 thousand students, while university enrolment is on the rise, having reached approximately three quarters of a million students (part-time and full-time combined) in 1985.

Total spending on education in 1985-86 amounted to \$34.6 billion – 7.2 per cent of Canada's gross domestic product. Elementary and secondary education accounted for roughly two thirds of the total; university education, for one fifth; the remainder went to college- and trade-level programs. This distribution of expenditures had changed very little from the preceding five-year period. The provincial governments financed 65 per cent of total education expenditures in 1985; the municipalities contributed 16 per cent; the federal government, 11 per cent. The remaining 8 per cent came from private sources (e.g., fees, donations, and investment income). Again, that distribution had changed very little from earlier years [Statistics Canada 1986].

Spending on education varies greatly among the different age groups. On a per-student basis, expenditures are the highest for elementary and secondary education, mainly because everyone attends primary and secondary school (Table 4-2). The cost of community colleges becomes a major item for members of the 15-24 age group, and the cost of university education the dominant item for members of the older age groups – highest for the 20-24 age group, then tapering off for the older cohorts.

Social Security

Spending on social security amounted to over \$35 billion in 1985, making social programs the largest government expenditure category. Federal outlays on these programs accounted for roughly two thirds of the total, primarily in the form of transfer payments to persons; the remaining third came from provincial and local governments.

Table 4-2
Major Expenditures in Education per Person in Selected Age Groups, by Sex and Type of Institution, Canada, 1985

	Elementary and secondary schools	Community colleges and CEGEPs	Universities	Others	Total
Age groups:	(Dollars)				
Men					
5-9	4,779	—	—	423	5,202
10-14	4,439	—	—	393	4,832
15-19	2,717	436	738	344	4,235
20-24	54	621	1,514	194	2,383
25-29	—	88	508	63	649
30-34	—	35	249	26	310
35-39	—	22	131	13	166
40-44	—	9	59	7	75
45-49	—	—	58	5	63
Women					
5-9	4,789	—	—	424	5,213
10-14	4,445	—	—	393	4,838
15-19	2,554	634	821	355	4,364
20-24	74	540	1,420	180	2,214
25-29	—	88	384	42	514
30-34	—	51	228	24	303
35-39	—	50	184	21	255
40-44	—	21	112	13	146
45-49	—	—	111	9	120

SOURCE Statistics Canada [1985]; and estimates by the Economic Council.

A variety of programs are supported by these types of expenditures: at least one third is devoted to Old Age Security and to the Canada and Quebec Pension Plans; one third goes to unemployment insurance; less than one tenth each is earmarked for Family Allowances and for various other pension plans; and the remainder serves to finance the Canada Assistance Plan or is in the form of tax credits, tax rebates, and other items.

Three groups of expenditure items are of particular interest in the context of our analysis: 1) the unemployment insurance program, administered by Employment and Immigration Canada; 2) the other support programs, administered primarily by Health and Welfare Canada; and 3) the welfare programs offered under the Canada Assistance Plan, the cost of which is shared by the federal government and the provinces, while the programs themselves are administered by the provinces, territories, and municipalities.

Unemployment Insurance

The Unemployment Insurance Act is the major legislative base for the federal government's employment and insurance program. The broad objective of this program is to "further the attainment of national economic and social goals by realizing the full productive potential of Canada's human resources" [Employment and Immigration Canada 1984, p. 4-10]. Under the program, the goal of unemployment benefit services is "to provide temporary income support to unemployed workers while they seek employment or while unable to work because of sickness, disability or pregnancy" [Employment and Immigration Canada 1984, p. 4-40].

In 1985, expenditures on unemployment insurance (UI) benefits amounted to over \$10 billion. The benefits were funded by public and private contributions. Both are included

in our estimates, since the private contributions are similar to taxes – i.e., they are obligatory rather than discretionary. The payout of benefits was the highest for the youngest age groups, and the lowest for the oldest groups. That was in line with the historical pattern of higher youth unemployment, greater work experience and lower unemployment among the middle-aged groups, and gradual retirement from the labour force and substitution of various forms of income support (pensions, Old Age Security benefits, and so on) for insurance benefits among the oldest age groups. The payout of benefits was also substantially lower among women than among men (Table 4-3). That can be attributed to lower unemployment among younger women, a greater incidence of part-time employment among middle-aged and elderly women, and lower wage rates.

Table 4-3**Unemployment Insurance Benefits per Person in Each Age Group, by Sex, Canada, 1985**

	Men	Women
	(Dollars)	
Age groups		
15-19	118	44
20-24	981	539
25-29	1,099	831
30-34	894	654
35-39	739	507
40-44	649	412
45-49	649	408
50-54	685	320
55-59	820	316
60-64	825	240
65-69	194	45

SOURCE Estimates by the Economic Council, based on data from Statistics Canada and Revenue Canada.

Income Support

The Income Security Program is the single largest cost item of Health and Welfare Canada: it accounts for over half of that department's total expenditures. It is a major part of the government's system of income maintenance. Given the central objective – to maintain and improve the income security of the people of Canada – the program is divided into three operational activities:

1 The Family Allowance (FA) program is intended to assist families in meeting the cost of raising children. Under the FA program, an allowance is paid on behalf of every

child under 18 years of age residing in Canada and maintained by his/her parent(s). A special allowance is paid on behalf of a child maintained by a welfare agency or institution.

2 The Canada and Quebec Pension Plans (CPP and QPP) provide a pension to all employed and self-employed persons. The amount paid under either of these plans is based on the contributors' insured earnings and on the period of contribution. The plans are not funded through government tax revenues but through the contributions of individuals; the plans are more or less self-supporting in terms of the benefits paid out and administrative costs. Nevertheless, for the individual the mandatory contributions are very much like taxes.

3 Old Age Security (OAS) provides a basic benefit to help elderly pensioners meet the necessities of life. In addition, it provides for income-tested assistance through the Guaranteed Income Supplement and the Spouse's Allowance for those pensioners with little or no income beyond the basic pension.

Roughly one out of every three Canadians is a beneficiary of the income-security program. In 1985-86, this program provided Family Allowance payments to 3.6 million families on behalf of 6.6 million children, and Old Age Security to some 2.6 million pensioners. Most of the FA payments went to adults, since they are not paid to the children but to their parents (generally the mother). Pension payments for men are higher than for women, mainly because their lifetime earnings are higher. The combined payments under the government pension plans and Old Age Security reach their maximum level when people are in their late 60s, continue at nearly the same level during their early 70s, and then start to decline. The decline is, of course, closely associated with the higher mortality rates in later years of life (Table 4-4).

Social Welfare

The Canada Assistance Plan (CAP) was enacted during the 1960s to encourage the further development of welfare services in Canada. Under this plan, the federal government entered into cost-sharing agreements with the provinces and the municipalities with a view to providing social assistance and welfare services to persons in need.

The plan provides for assistance to institutions offering special care: homes for the aged, nursing homes, hostels for transients, child-care institutions, homes for unmarried mothers, and homes of other kinds. Among the persons who

Table 4-4

Family Allowances, Pensions, and Old Age Security Benefits per Person in Each Age Group, by Sex, Canada, 1985

	Family Allowances	Pensions ¹	Old Age Security benefits	Total
(Dollars)				
Age groups:				
Men				
15-19	--	2	...	2
20-24	25	14	...	39
25-29	157	6	...	163
30-34	372	14	...	386
35-39	521	24	...	545
40-44	539	36	...	575
45-49	353	80	...	433
50-54	176	132	...	308
55-59	85	291	...	376
60-64	34	870	...	904
65-69	10	4,068	6,307	10,385
70-74	4	3,515	6,337	9,856
75-79	1	1,582	5,261	6,844
80-84	1	1,582	5,261	6,844
85 and over	1	1,582	5,261	6,844
Women				
15-19	1	2	...	3
20-24	40	15	...	55
25-29	100	9	...	109
30-34	155	29	...	184
35-39	196	44	...	240
40-44	160	84	...	244
45-49	87	149	...	236
50-54	41	253	...	294
55-59	17	445	...	462
60-64	5	716	...	721
65-69	2	1,569	3,969	5,540
70-74	1	1,304	4,089	5,394
75-79	1	544	3,789	4,334
80-84	1	544	3,789	4,334
85 and over	1	544	3,789	4,334

¹ Including Canada Pension Plan and Quebec Pension Plan benefits.

SOURCE Estimates by the Economic Council, based on data from Statistics Canada and Revenue Canada.

benefit from this assistance are, for example, one-parent families, mentally and physically disabled persons, neglected or abused children, and the aged.

Under the same plan, the federal government shares costs with the provinces over a wide range of additional social welfare services. Included among these are, for example, daycare services for children, home support to families in emergency situations, adoption services, rehabilitation ser-

vices for the chronically unemployed, and community development services to assist members of deprived communities in improving their social and economic conditions.

Total expenditures under the CAP amounted to nearly \$9 billion in 1985 [Health and Welfare 1990]. About two thirds of that amount was spent on welfare assistance and the rest on welfare services. A glance at the age distribution of the beneficiaries of these expenditures reveals that they

Table 4-5

Estimates of Expenditures per Capita on Social Welfare, by Age Group of Beneficiaries, Canada, 1985

Age groups	Welfare assistance	Welfare services	Total
	(Dollars)		
0-4	3	57	60
5-9	3	57	60
10-14	3	57	60
15-19	67	88	155
20-24	352	226	578
25-29	384	241	625
30-34	384	241	625
35-39	337	218	555
40-44	337	218	555
45-49	368	233	601
50-54	368	233	601
55-59	495	294	789
60-64	495	294	789
65-69	194	149	343
70-74	35	73	108
75-79	35	73	108
80-84	35	73	108
85 and over	35	73	108

SOURCE Estimates by the Economic Council, based on Models of the Economic-Demographic System by F. T. Denton, C. H. Feaver, and B. Spencer, McMaster University.

were concentrated in the working-age population. While the inclusion of these expenditures affects the level of government expenditures, it has very little impact on dependency ratios since they do not relate to the youngest or the oldest segments of society (Table 4-5).

Health Care

In 1985, Canada's total health expenditures amounted to roughly \$40 billion, of which \$30 billion was publicly funded and \$10 billion came from private sources. Hospitals, physicians, and special-care facilities accounted for \$27 billion, or 90 per cent of total public spending in that area. That expenditure excluded home care and ambulances among the institutional services; dentists, chiropractors, and others among the professional services; all drugs and appliances, as well as capital costs and other health expenses. But it included some private-sector expenditures – e.g., differential charges for preferred accommodation in hospitals and services that are medically not essential.

Hospital costs were the largest expenditure item among the three, amounting to \$644 per capita in 1985. They were followed by physician expenditures, at \$252 per capita, and by expenditures on special-care facilities, at \$169 per capita. As might be expected, per-person expenditures on health created a pattern across the individual age groups that differed from those observed earlier for education and social security.

Hospital expenditures are high at birth, drop sharply to lower levels during childhood and adolescence, increase for young adults and the middle-aged, and rise rapidly towards the end of the lifespan. The age distribution of expenditures on physicians and special-care facilities does not quite follow the same pattern. In 1985, the share of hospital expenditures in the total was so large that it clearly dominated over the other categories (Table 4-6).

In brief, per-person expenditures on health, education, and social programs form a pattern of medium-sized costs for the younger age groups, low costs for the middle-aged, and high costs for the elderly (Chart 4-4).

Personal Income Tax Patterns

Three characteristics – age, sex, and education – are known to be very important determinants of the work earnings of both immigrant and Canadian-born members of the labour force. Here, however, we consider only what impact variations in immigration will have on the first two characteristics. (These immigrant characteristics, including education, will be discussed in greater detail in Chapter 7.)

Although age is by no means a precise indicator of work experience, it certainly affects earnings. Given that a person works in a variety of occupations during his/her lifetime, most of the premium for additional work experience is added during the first 20 years in the work force – that is, between the 20th and 40th birthdays. Beyond age 40, the market pays very little for extra years of experience.

On average, women earn less than men. Income statistics show that below the age of 25, the earnings differential between men and women is relatively narrow. The differential widens from about that point on and is known to be the least favourable for elderly women with little education. The earnings differential can be explained by the greater incidence of part-time employment among women, by differences in educational attainment and occupational status, and by the fact that women tend to have fewer years of work experience. There is a significant residual, however, that must be attributed to discrimination and/or other unidentified factors.

Table 4-6

Major Health Expenditures per Person in Each Age Group, by Sex and Category of Expenditures, Canada, 1985

	Hospitals	Physician's services	Special-care facilities	Total
(Dollars)				
Age groups:				
Men				
0-4	1,459	243	11	1,713
5-9	149	141	11	301
10-14	149	127	67	343
15-19	217	123	67	407
20-24	217	125	80	422
25-29	257	148	80	485
30-34	257	155	80	492
35-39	257	155	80	492
40-44	257	165	80	502
45-49	742	255	92	1,089
50-54	742	277	92	1,111
55-59	742	277	92	1,111
60-64	742	321	92	1,155
65-69	1,778	479	222	2,479
70-74	1,778	550	372	2,700
75-79	3,897	548	754	5,199
80-84	3,897	549	1,779	6,225
85 and over	3,897	547	4,589	9,033
Women				
0-4	1,319	211	5	1,535
5-9	118	131	5	254
10-14	118	132	45	295
15-19	179	227	45	451
20-24	179	271	49	499
25-29	348	313	49	711
30-34	348	311	49	708
35-39	348	311	49	708
40-44	348	303	49	700
45-49	699	324	62	1,085
50-54	699	330	62	1,091
55-59	699	330	62	1,091
60-64	699	347	62	1,108
65-69	1,513	442	188	2,143
70-74	1,513	487	415	2,415
75-79	3,708	485	1,030	5,223
80-84	3,708	485	2,706	6,899
85 and over	3,708	490	6,817	11,015

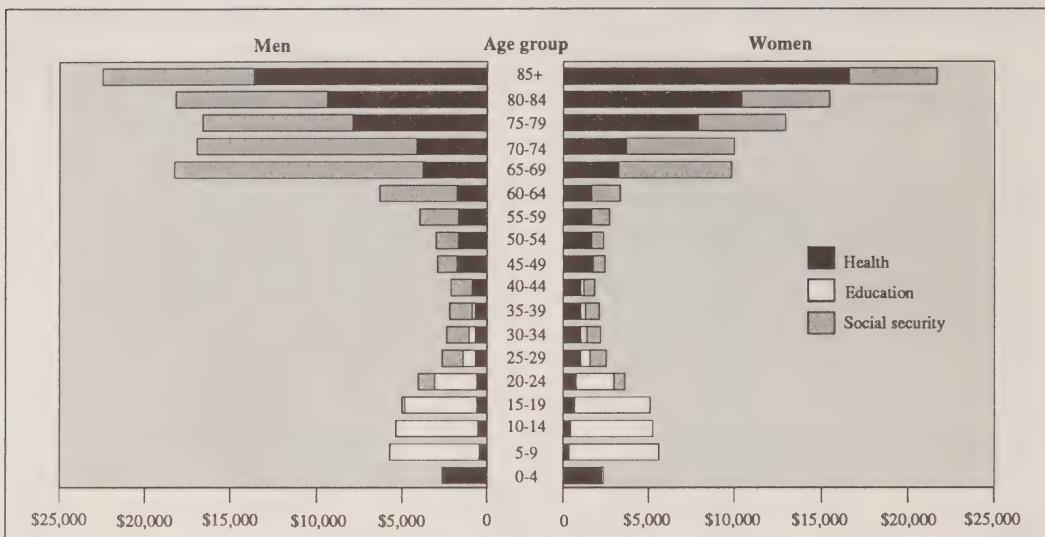
SOURCE Estimates by the Economic Council, based on data from Health and Welfare Canada and Statistics Canada.

The income characteristics associated with age and sex are reflected in the taxation statistics. Under Canada's system of progressive income taxation, people who earn higher wages pay disproportionately more taxes than people who

have lower incomes. As a result, tax differentials between men and women tend to overstate income differentials between them somewhat. Moreover, taxation statistics do not differentiate clearly between the earnings of family members

Chart 4-4

Expenditures per Capita on Health, Education, and Social Security, by Sex and Age Group, Canada, 1985



SOURCE Estimates by the Economic Council, based on data from Statistics Canada, Health and Welfare Canada, and Revenue Canada.

listed on joint and individual returns, and that distorts the picture further. For those reasons, the pattern of the age/sex distribution of income taxes should be viewed with caution.

As shown in Chart 4-5, the highest income taxes are paid by middle-aged income earners (i.e., those in the 35-50 age group). They are much higher than for the younger and older age groups. It can be seen at once that this age distribution of income taxes is very different from the corresponding distribution of expenditures on health, education, and social security illustrated in Chart 4-4.

Results of the Simulations

All of the above information was used in order to implement the simulation methodology described earlier. The main results are shown in Table 4-7, which tells the story of the effect of demographic trends and immigration on the burden of paying for health, education, and social security. As shown in the table, per-capita expenditures in all three categories combined would be expected to increase between now and the year 2040, simply because Canada's popula-

tion is aging, and independently of any other factors that might be operating. This demographic effect makes total expenditures on health and on the social security of the elderly grow faster than the population. In the medium-immigration scenario, the demographic effect raises the per-capita burden of paying for the three program areas by \$622 by 2015 and \$1,482 by 2040.

Higher immigration modifies these expenditure trends. In the high-immigration case, per-capita expenditures to 2015 will rise by only \$504 – a saving of \$118. Going out to 2040, there is a saving of \$456 that year. There are corresponding savings in other years.

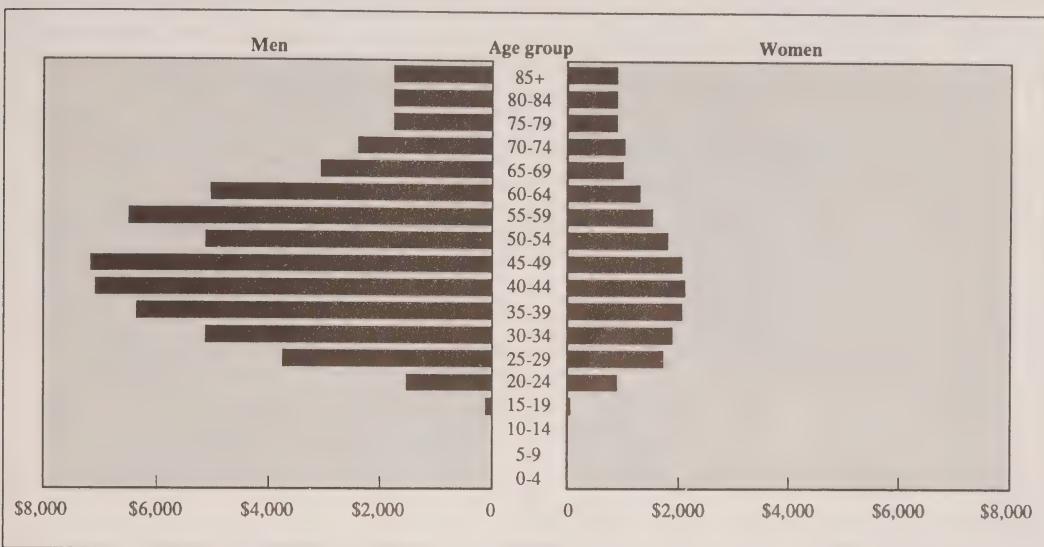
Counting in the effects on personal income tax makes the savings smaller – by \$20 in 2015 and by \$1 in 2040 (Table 4-7). We must also allow for the cost of increasing immigration, however.

Costs of Increasing Immigration

In consultation with the provinces, Employment and Immigration Canada selects and admits immigrants to this

Chart 4-5

Income Taxes per Capita, by Age Group, Canada, 1985



SOURCE Based on data from Statistics Canada.

country. Immigration levels are set for different classes – i.e., the family class, refugees, business immigrants, and other designated classes – in line with the prevailing economic, demographic, and social objectives; humanitarian concerns are taken into account as well. In recent years, the intake of refugees as a percentage of total immigration to Canada has increased. That is partly the result of an increase in the number of unplanned arrivals – i.e., of persons who enter Canada legally or illegally and who subsequently succeed in being recognized as refugees.

Federal and provincial governments provide immigrants with settlement assistance that ranges from transportation loans to language training. The Ministry of Education of British Columbia, for example, has instituted an English-as-a-second-language (ESL) program, so that all students, regardless of their linguistic and cultural background, will not unduly suffer from culture shock and will have an opportunity to develop their fullest potential. Similarly, Quebec provides a considerable amount of resources for French-language training. At the federal level, the Immigrant Settlement and Adaptation Program (ISAP) enables Employment and Immigration Canada to contract with over 100 organizations across the country to provide reception, counselling, referral, and employment-related services for

newcomers [Employment and Immigration Canada 1986]. Numerous other programs exist.

Precise expenditure estimates for government services aimed at immigrants, including expenditures on refugee claimants, are difficult to come by. The available estimates that are consistent across all ten provinces may well be on the low side (Table 4-8). In 1985, they amounted to \$432 million. Provincial social assistance to refugees and refugee-status claimants accounted for somewhat over 40 per cent of the total; language training, for some 25 per cent; and federal social assistance and other costs of operations, for the remainder.

If the 1985 level, percentage pattern, and age distribution of these expenditures are maintained in the future, total costs will rise with the volume of immigrants. Thus it will cost more to process immigrants in the high-immigration scenario than in the low-immigration case. Table 4-7 shows that by 2015 the extra cost, expressed per capita of the Canadian population at that time, will be \$20. It will also be \$20 in 2040.

We can now sum up on tax dependency costs. Table 4-9 pulls together the relevant data. It shows that the net gain

Table 4-7
**Effects of Immigration and Demographic Factors¹ on Selected Expenditures and Revenues,
Canada, 1989, 2015, and 2040**

	Assumed rate of immigration		
	Medium (0.4 per cent)	High (0.8 per cent)	Difference
	(Millions)		
Population			
1989	26.2	26.2	-
2015	31.9	35.9	4.0
2040	34.7	44.1	9.4
Increase in:			(Dollars)
Per-capita expenditures on health, education, and income security			
1989-2015	622	504	-118
1989-2040	1,482	1,026	-456
Per-capita income tax collections			
1989-2015	105	85	-20
1989-2040	29	28	-1
Per-capita immigrant-specific expenditures by the host population			
1989	29	50	-21
2015	28	48	-20
2040	27	47	-20

1 The influence of changes in the age structure is the only factor considered here.

SOURCE Data from Statistics Canada, and estimates by the Economic Council.

Table 4-8
**Immigrant-Specific Expenditures, by
Category, Canada, 1985**

	(Millions of dollars)
Adult language training	47
Language training for immigrant children	60
Provincial social assistance	186
Federal social assistance	36
Others	103
Total	432

SOURCE Estimates by the Economic Council, based on data supplied by the federal and provincial governments.

from higher immigration in tax costs of dependency in 2015 will be \$78 per capita – to be compared with a gross gain of \$118. If the higher level of immigration is sustained to

2040, the net gain that year will be higher – \$435 per capita, compared with a gross gain of \$456.

We conclude from these estimates that under the given set of assumptions, a higher rate of immigration will lower the per-capita tax burden of financing expenditures on health, education, and income security, but not by very much.

Adding in the Gains from Scale Economies

In Chapter 3, we showed that there are also gains to the income of hosts from scale economies when immigration is raised. For a full picture of the effects of immigration on the total disposable income of hosts, it is necessary to add these scale gains to those from savings in tax costs of dependency.

Recall that we are comparing two scenarios – one with 0.8 per cent net immigration and one with 0.4 per cent. This

Table 4.9

**Effects of Changes in Assumed Immigration Rate¹ on
Dependency Costs for Three Programs, on
Personal Income Tax Revenue, and on Costs of
Bringing in Immigrants, Canada, 2015 and 2040**

	Effect per capita in	
	2015	2040
(Dollars)		
Gross gain: savings on taxes per capita to finance three programs	118	456
Change in personal income tax yield per capita	-20	-1
Cost of extra immigration per capita of total population	-20	-20
Net gain per capita	78	435

1 The assumed immigration rate is raised from 0.4 to 0.8 per cent.

SOURCE Estimates by the Economic Council.

doubling of immigration in the high-immigration case adds about 4 million persons to the population by 2015 and nearly 10 million by 2040. The resulting scale effects add about \$270 to per-capita income in the year 2015 and about \$460 in 2040.

Adding the scale gains to the gross savings in tax costs of dependency, and subtracting the expenses associated with processing the extra immigrants, we arrive at a total gain to disposable income. In 2015, this will be about \$350 per capita – approximately 1 per cent of expected annual income at that time. In 2040, the gain will be about \$900 per capita – approximately 2 per cent of expected income. These effects are exceedingly small: as a result of a massive increase – a

doubling – in immigration, income rises faster, but only by one twenty-fifth of 1 per cent per annum.

The scale effects in 2015 are about three times as important as the savings in the tax costs of dependency; in 2040, however, they are only slightly more important. This reflects the fact that the savings in the tax costs of dependency build up more slowly than the scale gains because they depend in a complex way on the changing age distribution of the population, rather than simply on its changing total size. Comparing the gains correctly over the 50-year period as a whole therefore requires a complex exercise involving discount rates. For an arbitrary but reasonable discount rate (5 per cent in real terms), it turns out that scale gains are responsible for about two thirds of the overall income gain to the hosts over the period as a whole; the savings in dependency costs account for about one third.

Conclusions

The tax costs of paying for health, education, and social programs will be significantly increased by changing dependency ratios over the next 50 years. That is especially the case towards the end of the period. A doubling of immigration from 0.4 per cent to 0.8 per cent (net) of the population would moderate this increase in tax burden only slightly. Thus, as a source of economic gain from immigration, the reduction in the tax burden of dependency is quite insignificant.

Adding in the efficiency improvements from a larger domestic market, as estimated in the previous chapter, increases the gains, but they remain small. A doubling of immigration leads to the disposable income of the hosts in 2015 being about 1 percentage point higher than it would otherwise have been. Even by 2040, it is only 2 percentage points higher.

5 Unemployment

The unemployment rate is a key indicator of economic welfare. Thus it is critically important, in the context of this report, to know whether the unemployment rate among residents of Canada is increased by immigration. Our work leads us to the conclusion that there is virtually no connection; immigration creates no permanent unemployment, and even transitory effects seem very unlikely.

Yet, concern persists. Until 1990, immigration targets were cut back during recessionary periods, implying that policymakers believe that immigration would increase unemployment at such times. Employment and Immigration Canada has repeatedly investigated that issue and has commissioned simulations from at least one major consulting company to discover if there is an impact on unemployment. The points system was administered until recently in such a way that an immigrant could not come into this country unless his/her occupation was "open" – a status that was determined, among other things, by a low rate of unemployment in that occupation in Canada. Thus in raising the question of whether immigrants take away jobs, we are by no means setting up a straw man.

Methods for Testing the Impact of Immigration

Several ways of testing whether immigration creates unemployment can be devised, from the very simple, though telling, to the very complicated.

The simplest tests are based on two facts: 1) that immigration makes a country's population larger; and 2) that it makes it grow faster. Given these facts, one can ask two obvious questions. Do countries that have larger populations have higher unemployment rates? And do countries whose populations grow faster than others have higher unemployment rates?

A more complex test is based on the fact that both immigration levels and unemployment rates have varied through time in Canada. One can ask to what degree these two movements have been correlated. Such a test has the virtue of picking up any temporary effects of immigration on unemployment. Two difficulties arise, however. One is that

unemployment rates vary for many reasons; sorting out the hypothetical impact of immigration alone is very difficult. The other is that a reverse connection exists: many would-be immigrants are deterred by high unemployment in the anticipated country of destination. Thus high immigration is associated with low unemployment in the observed data, but unemployment might have been even lower if immigration had been less. Sorting out these two difficulties poses a tricky technical problem for the discipline of econometrics.

A third avenue for testing the impact of immigration is provided by large econometric models. Several such models of the Canadian economy are available. In theory, they can be used to simulate the effects on unemployment of higher immigration in the future, or of lower immigration in the past. It is this kind of model that has been used by Employment and Immigration Canada [Sonnen 1989]; in addition, typical results from similar models were extensively surveyed by the Macdonald Commission [Marr and Percy 1985]. There is a major difficulty in accepting those results, however, which has to do with the fact that the theoretical explanation of unemployment built into the models does not capture all of the factors that either cause or prevent unemployment. The result is that the models can occasionally make errors, which are of two types: 1) they can sometimes fail to predict unemployment that will occur; and 2), more subtly, they can sometimes predict unemployment that will not occur. In our view, the models are particularly prone to the second type of error when it comes to assessing the effects of immigration on unemployment. Note that this is not a criticism of the use of such models in general, but only of their use when key assumptions built into them happen to be invalid for the purpose at hand. Not everyone would accept our opinion that the assumptions of these models are questionable when it comes to the effects of immigration on unemployment, however, so that we shall be presenting results from them, despite our reservations about their value.

A fourth method is to delve into the general economic theory of unemployment and ask what it implies for the relationship, if any, between immigration and unemployment. This method would be ideal if that theory were a settled issue. Unfortunately, it is not, as our brief critique of the "big models" has already implied. Theories about

the causes of unemployment are at approximately the same stage of development in economics as are theories about the causes of cancer in medicine – incomplete and controversial. Nevertheless, they are far from entirely useless. What we shall do is to indicate what the two main competing theories of unemployment in economics are, and how well they do in explaining three key facts about unemployment. As we shall see, neither theory performs even close to ideally, but one of them makes an important new prediction about the process of job creation that the other does not, and that tips the scales in favour of the former, in our view.

Applying the Tests

International Cross-Section Tests

Chart 5-1 shows a scatter diagram of population sizes and unemployment rates for various countries. The countries selected are those for which information on the measured unemployment rate is available in a form that makes it comparable with Canada's. The most recent data available at the time of writing were used, with an average of three

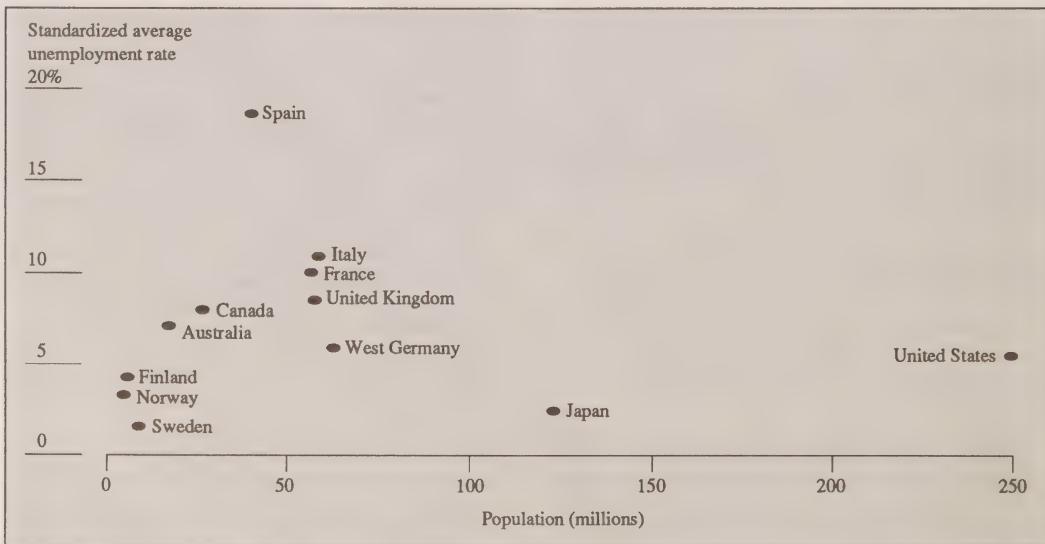
years (1987-89) taken so as to minimize spurious chance variations. A look at the chart strongly suggests that there is no link between population size and the rate of unemployment. All combinations are found – large population with high unemployment rates (e.g., the United Kingdom), large population with low rates (e.g., Japan), small population with high rates of unemployment (e.g., Canada), and small population with low rates (e.g., Sweden). In the largest country – the United States – the rate is right in the middle.

Several ancillary checks confirm the graphical impression. A formal calculation of the correlation coefficient shows it to be not statistically significantly different from zero. If one substitutes labour force for population – after all, jobs are irrelevant for children, retirees, and others outside the labour force – the scatter diagram is left unchanged in appearance, and the correlation coefficient remains nonsignificant. Substituting earlier data results in a somewhat different pattern of countries with high and low rates of unemployment, but yields the same patternless scatter and zero correlation.

We conclude that countries with larger populations and labour forces do not have higher unemployment rates than

Chart 5-1

Unemployment Rate and Population, 12 OECD Countries, 1987-89



countries where the population and the labour force are smaller. That is one piece of evidence suggesting that immigration, which increases the size of a country's population and labour force, may not increase its rate of unemployment.

Another possibility is that rapid growth in a country's labour force creates unemployment, because the rate of increase in available jobs cannot keep up. Since immigration speeds up labour force growth, it might cause unemployment in this way. Chart 5-2 bears on this question. It shows the rate of growth of the labour force and the rate of unemployment in various countries, averaged over the years 1987-89. No relationship appears. We can again see all combinations: fast labour force growth with high unemployment (Spain), fast labour force growth with low unemployment (Japan), slow labour force growth with low unemployment (Finland), and slow labour force growth with high unemployment (Italy). Formal statistical testing confirms these results, as does the testing of data for earlier time periods. Thus there is a second piece of evidence suggesting that immigration, though it increases the rate of growth of a country's labour force, may not increase its rate of unemployment.

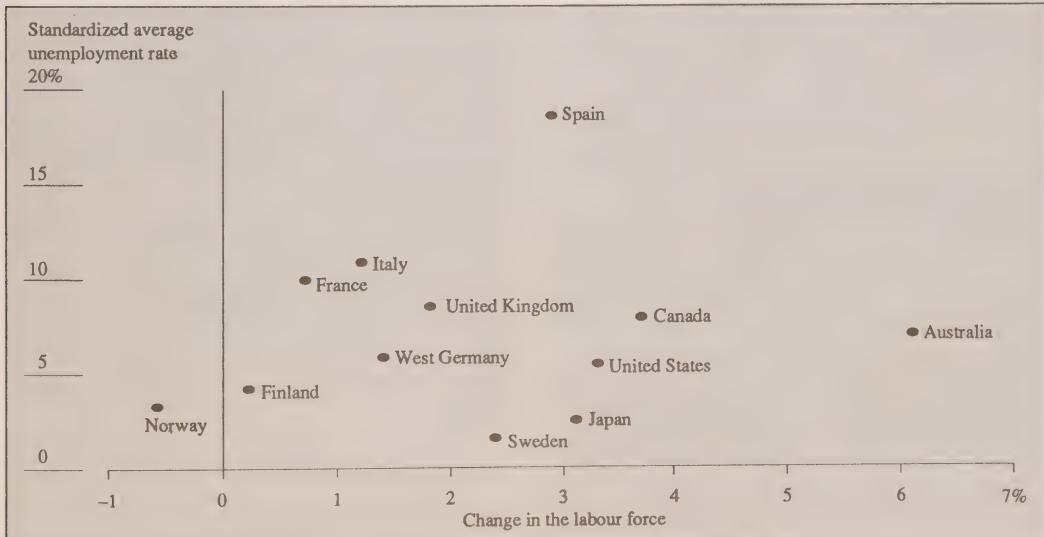
Time-Series Data in Canada

This statistical test focuses on the behaviour of the unemployment rate in Canada through most of the years since 1960 (data were unavailable for some years). Can part of the variations in unemployment rates be associated, statistically speaking, with variations in immigration? That is a somewhat tougher test to perform, because of the two-way causality alluded to above. What we need is a way of testing for the existence of two separate relationships between the rate of unemployment and the rate of immigration.¹ In one relationship, causality runs from unemployment to immigration, and one hypothesizes that the rate of immigration is negatively influenced by unemployment: immigrants do not come to Canada when jobs seem harder to find, and Canada also cuts back the number of potential newcomers at such times. In the other relationship, causality runs from immigration to unemployment, so that the rate of unemployment is hypothesized as being positively influenced by immigration: immigrants compete for jobs with existing residents.

The first hypothetical relationship does exist. Immigration drops when the unemployment rate rises. There is one

Chart 5-2

Unemployment Rate and Change in the Labour Force, 12 OECD Countries, 1987-89



less immigrant for every extra three persons unemployed. The second hypothesized relationship does not exist, as far as these Canadian data show. Unemployment does not appear to be affected positively by immigration.

Various refinements leave this result unchanged. They all show no effect of immigration on the Canadian unemployment rate.

The "Big Models"

In the past literature, one can find several examples of large econometric models having been used to test what the effects of an increase in immigration on unemployment might be. Simulations have been done many times for Canada, using various models, and also for the United Kingdom and other countries. We have not done any work in this area, as further analysis is not needed. We present instead a synopsis of typical past results; they all tend to be similar.

In a simulation done by Rao and Kapsalis [1982] with a major Canadian model, CANDIDE 2.0, the effect of an extra 50,000 immigrants a year up to 1990 was examined. The simulation showed that unemployment would increase steadily, with nearly one extra person unemployed for every two persons who joined the labour force as a result of the extra immigration. The model, like all such models, does not enable one to say how the extra unemployment is distributed between the newcomers and existing residents. Table 5-1, adapted from Rao and Kapsalis [1982], shows the details.

Table 5-1

Simulated Effects¹ of Higher Immigration on Unemployment, Canada, 1980, 1985, and 1990

	1980	1985	1990
	(Number of persons)		
Simulated extra immigration	50,000	50,000	50,000
Resulting cumulated increase in			
Participants in labour force	23,700	135,300	247,800
Number of jobs available	12,400	79,100	137,800
Number of unemployed	11,300	56,200	110,000
Unemployed per 100 extra persons in the labour force	48	42	44

1 The simulations were conducted with CANDIDE Model 2.0.

SOURCE Based on Rao and Kapsalis [1982].

More recently, a similar simulation exercise was performed by *Informetrica* [Sonnen 1989], using its large model. The results were the same in direction, though slightly less pessimistic about the impact of immigration on the level of unemployment. Simulating the period from 1989 to the year 2000, the model indicated that for every extra three persons added to the labour force by immigration, one person would join the rolls of the unemployed.

Simulations with other Canadian models give the same kind of results, according to Marr and Percy [1985], who explored several of these models in their work for the Macdonald Commission.

Andrews et al. [1985] reported simulations with various U.K. models. Some results are shown in Table 5-2. Four of the five models show severe unemployment effects of an increase in the labour force (which, for our purposes, may be taken as immigration-induced). The London Business School model shows a magnitude of impact somewhat similar to that obtained for Canada by Rao and Kapsalis [1982], with just over one person unemployed for every additional two persons in the labour force. Three other models show more than four out of five being unemployed. Only the Liverpool University model differs, showing no effect.

The conclusion from the "big models" is very clear. They nearly always predict that augmenting the labour force through immigration will add to unemployment, by amounts ranging from one unemployed person for every three new entrants to almost one for one. Moreover, unemployment goes on increasing as long as future immigration is held at a higher level than in the relevant historical period to which the model was fitted. In principle, according to these models, an increase in immigration to a new and permanently higher level will cause the unemployment rate to continue climbing indefinitely.

The results are in sharp contrast to the evidence presented in the previous section. That is not surprising. They are precisely what one would expect from models whose structure draws heavily upon what is known as the "Keynesian aggregate-demand theory of unemployment." In the next section, we discuss the merits of this and other theories, and later evaluate these "big model" results accordingly.

Confronting Facts and Theories

Three Important Facts about Unemployment

A most mysterious fact about unemployment is not that it exists, but that it does not grow continuously. Its secular

Table 5-2**Impact of a 1-per-Cent Increase in the Labour Force, Various U.K. Models**

	Increase in		Change in the unemployment rate	Time period covered by simulation ¹
	Labour force	Employment		
	(Per cent)		(Percentage points)	
Source of model				
London Business School	1.00	0.45	+0.55	1984/I to 1988/III
National Institute for Economic and Social Research	1.00	0.18	+0.82	1984/I to 1989/I
Her Majesty's Treasury	1.00	0.05	+0.95	1984/II to 1988/III
City University Business School	1.00	0.17	+0.83	1984 to 1996
Liverpool University	1.00	1.03	-0.03	1984 to 1997

1 Roman numerals indicate the quarter of the year.

SOURCE Andrews et al. [1985].

stability² is the mystery. If the size of the labour force were constant, that would be reasonably easy to understand. Once unemployment was steady – at any level – it would stay steady. With a constant labour force, new entrants, needing jobs, would match exactly with departures from the labour force as a result of retirement, death, and so on. People quitting to seek other work would add to the number of job seekers, but they would simultaneously create an equal number of vacancies. Redundancies in firms and industries that were contracting could create a problem, but it is reasonable to suppose that there could be matching new vacancies in firms and industries that were expanding.

If the labour force is growing, matters are not nearly so simple: the number of new entrants into the labour force then perpetually exceeds the number of people leaving it; retirees are fewer in number than school leavers; the number of women who choose to start working outside the home is larger than that of women who decide to stop working; and so on. Quits and redundancies may still be matched by an equal number of vacancies created, but that is all; that numerical balance does not solve the problem of jobs for the extra labour force members. Where do such jobs come from? Why doesn't the unemployment rate just keep going up?

As a particularly dramatic example, consider the case of the Atlantic region between 1966 and 1988. No one has ever accused that region of having a buoyant labour market. From the standpoint of 1966, one might therefore have expected that the rapid increase in the adult population (nearly 42 per cent) over the next two decades would pose a serious problem for the future. Such an increase could have been

expected to raise the demand for jobs by at least a corresponding 42 per cent, sharply increasing unemployment unless the supply of jobs rose correspondingly or unless people left the labour force in droves.

What happened in practice was that the number of jobs rose by more than enough to match the population-induced increase in demand for them – by 53 per cent, in fact; the extra 11 percentage points were taken up by an increase in the proportion of the population at work.

Where did all those jobs come from? If the number of jobs had stayed static at the 1966 level, the unemployment rate would have reached 48 per cent by 1988. True, the unemployment rate did climb – from 6.4 per cent in 1966 to 12.4 per cent in 1988 – but the real puzzle is why it did not rise far more.

We chose the example of the Atlantic region to highlight the first of three important facts that we think an adequate theory of unemployment must explain: very often, enough jobs are created to absorb the great majority of increases in the size of a region's labour force that are autonomously induced (i.e., that are not demand-induced), including increases caused by population growth. We say "very often" because numerous examples of this phenomenon can easily be found from regional, national, and international data on unemployment, employment, the labour force, and population. And we do not say "always" (though we have found no contrary examples) because to do so would be to beg the very question about immigration that we seek to answer.

We come now to a second important fact – the existence of intermittent bouts of cyclical unemployment.

Unemployment rose dramatically all over the world during the Great Depression of the 1930s. While that economic crisis was exceptional in its severity, periods of substantial cyclical unemployment, depressions, and recessions have occurred irregularly but repeatedly throughout the last 200 years. They still occur, though considerably attenuated. Any fully satisfying theory of unemployment must account for them.

Third, variations occur in unemployment rates not only through time, but also across space. This fact must also be accounted for. As seen in Chart 5-1, there are large variations in the rate of unemployment among nations. What the chart does not show – but what is also true – is that the pattern of the variations is rather stable. Since the Second World War, Japan and Sweden, for example, have nearly always had unemployment rates lower than the average for the countries shown on the chart, while Italy and the United Kingdom have nearly always had rates higher than the average. Canada and the United States have nearly always been near the median. And within nations, there are often similarly stable variations among regions; Canada and Italy are prime examples of this.

In our view, a good theory of unemployment would be one that successfully explained these three facts. True, there are many other facets of unemployment that a really good theory would also have to explain. For example: Why do young people always have higher-than-average unemployment rates? Why is the incidence of unemployment so uneven, with a few long spells accounting for most unemployment experience? And why are there such great variations in unemployment rates among occupations? The three facts that we have selected represent our judgment of which ones are the most important, but not everyone would agree with that choice. We think everyone would agree, however, that explaining these three is a necessary condition for a good theory, although it might not be sufficient.

Two Competing Theories

The Great Depression gave immense impetus to attempts to find the causes of unemployment. The attempts were crowned with success, or so it seemed at the time, when Keynes wrote *The General Theory of Employment, Interest and Money*. From that and other works of the time, there gradually evolved a theory of unemployment that became the basis of economic policymaking during the postwar period. It was accepted as dogma for nearly 30 years. Although it began to be viewed as increasingly unsatisfactory by economists and policymakers during the 1970s, it is still widely used today, because no broadly acceptable

alternative has yet been developed. This theory is the basis for most of the “big models,” and we shall refer to it as the “Keynesian” theory. At the considerable risk of oversimplification, we shall attempt to describe it briefly in non-technical language.

The Keynesian Approach — The Keynesian theory starts from the idea that the number of jobs is determined by the requirements of firms and governments for workers. The need for workers by firms depends on their total production, which in turn depends on the demand for goods and services facing firms as a whole. To achieve full employment, the total demand for goods and services (“aggregate demand”) must reach a high enough level. Before Keynes, economists had maintained that demand would automatically be high enough, because if it were not, wages, prices, and interest rates would adjust to make it so. Keynes argued that this need not happen – and often would not. Aggregate demand could fall below the full-employment level and remain there for many years or even indefinitely. A major element in his reasoning was that a key component of aggregate demand consists of sales of capital goods and structures (“investment demand”). Investment demand is observably very volatile – and inevitably so, Keynes argued, given the factors determining the need for investment in the minds of the businessmen who make decisions about it. The perceived value of investment is a matter of expectations about future outputs and sales, Keynes maintained, and expectations can be very volatile. They can also move in step, so that investment demand can fall off across a wide swath of the economy when expectations turn sour.

Once a drop begins, it tends to be self-perpetuating. The reason is that a second major component of demand – that by households for day-to-day living (“consumption demand”) – depends on income, which usually depends on being employed. If employment starts to decline because of a drop in investment demand, incomes will also decline, so that consumption spending will decline as well, putting yet more people out of work, forcing income and consumption demand down further, and so on in a downward spiral. Downturns feed upon themselves.

Corrective forces that can slow down or even reverse reductions in aggregate demand do exist, just as the earlier economists argued, but they are often slow-acting and weak in relation to the forces that can shift aggregate demand down. Thus unemployment can build up well before any corrections can operate strongly enough to reverse it. Keynes went so far as to question whether such forces would come into play at all.

Historically, economies have emerged from recessions or depressions after a number of years of high unemployment.

Once an upswing has begun, it is usually self-perpetuating for reasons similar to those which produced the downswing that preceded it. Why upswings nearly always occur, sooner or later, remains in dispute. Possibilities include: the downward influence of unemployment on wages or on the rate of growth of wages, relative to prices, to the point that expanding employment becomes profitable again; declines in interest rates, as savings fail to find investment outlets, which eventually revitalize investment and consumption demand; falls in prices, increasing the real value of money holdings to the point that consumption demand rises enough to start an upswing; an accumulation of technical and scientific discoveries that eventually make investment seem profitable again despite bad conditions; the growing need to replace old capital as it depreciates; and unexpected demand increases, caused by factors such as major new discoveries or the outbreak of war.

As described so far, the initial downturn appears to be rather capricious, caused by a change for the worse in what Keynes called the "animal spirits" of entrepreneurs. Others have argued that caprice had nothing to do with it, that cycles in demand are intrinsic to the economic system under very general conditions. That is the conclusion of Samuelson's [1966] multiplier/accelerator analysis and of Hicks' [1950] trade-cycle theory. In common to all Keynesian analysts, however, is the notion that when aggregate demand falls off, for any reason, the self-correcting forces in the system will usually be too weak to avoid recurring periods of substantial unemployment.

The Keynesian theory is very plausible as an explanation of fluctuations in unemployment. However, it stumbles badly when it attempts to explain why the trend in labour force growth is always closely matched by the trend in job growth so that unemployment rates stay rather stable through time.³ In Canada, for example, labour force growth has been very rapid since the Second World War, while unemployment rates have risen but slowly. A Keynesian explanation for this would have to be that aggregate demand just happened to grow at very nearly the same rate as the labour force. Moreover, this coincidence of growth rates did not just occur nationally; similar coincidences occurred, each at different labour-force growth rates, in each of Canada's regions, in the United States, and in every country of Europe. That sort of explanation is unsatisfactory; one seeks a deeper understanding of such a widespread set of coincidences.

An explanation in vogue for a while was that the average level of aggregate demand is determined by government policy at a level that balances the twin evils of too much unemployment (if aggregate demand is too low) and infla-

tion (if aggregate demand is too high). Fast labour-force growth is deflationary and permits a compensating expansionary policy. This is possible, but it implies more power and determination to control the economy than seems reasonable.⁴

For these reasons, the Keynesian theory cannot explain adequately why unemployment rates are so stable through time. It is equally unsatisfactory in explaining why there are intercountry or interregional differences in unemployment levels. The only explanation it offers in this respect is that, relative to the demand needed for a given rate of unemployment, actual demand happens to be weak in some countries, strong in others. This is close to tautology, and therefore not satisfactory for drawing inferences about the effect of immigration on unemployment.

The Neoclassical View — The second theory has no difficulty in explaining the two facts that Keynesian theory cannot explain, but very great difficulty in explaining what Keynesian theory finds easy — i.e., why there are cyclical fluctuations in the unemployment rate. This second theory comes in several variations, but they all fall under the general heading "neoclassical theory." We shall try to describe, again in nontechnical language and at the risk of oversimplification, what we see as their crucial common elements.

In the neoclassical theory, unemployment stays low because whenever it starts to rise, self-correcting forces come into play to lower it again. Those forces are the very ones described above, which Keynes argued were too weak to do the job (wages, or rates of growth of wages, falling in relation to prices, thus stimulating demand for labour; a decline in interest rates that stimulates investment demand; and so on). Lying behind these forces are two more fundamental ones — the urge to make profits, which brings about the indicated responses in terms of demand for labour and investment demand; and a quasi-Darwinian process whereby firms that do not succeed in making profits are eliminated.

Consider a simplified case — that of an economy in which both population and the labour force are growing steadily. Each year extra people need jobs. According to the Keynesian model, the unemployment rate is likely to rise steadily under these conditions, for there is no reason to expect aggregate demand to increase to create the needed jobs. Not so, according to the neoclassical theory. The argument runs as follows. If the extra persons were in fact hired each year, they would add to consumption demand each year. Hiring extra people would necessitate either the creation of new firms or the expansion of existing ones. In either case, investment would be required. Thus if extra

people were hired each year, that very fact would imply additional demand for both consumption and investment purposes, so that aggregate demand would increase. There is the possibility, therefore, of a self-perpetuating virtuous circle: hiring more people leads to higher aggregate demand, which leads to hiring more people . . . and so on to full employment.

What the argument does not show is whether, at each stage, the extra demand created by the hiring process would actually be large enough to justify the number of hires that led to it. Whether this is so turns out to hinge, not surprisingly, on how much of their income people spend and how much capital is required per additional worker. These two factors determine, respectively, consumption demand and investment demand. The investment demand is presumed by neoclassical economists to be sensitive to interest rates and wages. And – this is the clincher – if investment demand is not high enough to employ everyone, interest rates and wages will gradually adjust until it does become high enough. Any unemployment above a minimal level will soften wage demands; consumption that is too low will force down interest rates. The process is said to be automatic in a market system. It might be noted that wage rates need not fall: they may only have to rise temporarily more slowly than their long-run trend. Moreover, if the process continues year after year, everyone will become accustomed to it. New firms will open up, and/or old firms will expand, in anticipation of a steadily growing total market. There will be little or no need for perpetually adjusting interest rates and wages – only for occasional corrections.

According to this neoclassical view, then, natural market forces will adjust to maintain full employment in any situation in which the labour force is increasing steadily. New jobs will emerge steadily and automatically, as needed.

In general, runs the neoclassical argument, such forces will always be at work in any economy, quietly guaranteeing that the jobs available match the labour force available.

It is obviously difficult for the neoclassical theory to explain recessions and depressions, but it is easy for it to explain why unemployment does not rise continuously when there is labour force growth.

Moreover, an extension of the theory goes on to explain why, though relatively low, unemployment is never zero, and why it differs among countries. Very briefly, the theory says that there is a “natural rate” of unemployment, always above zero, because matching unemployed workers with vacancies takes time, because some seasonal unemployment cannot be avoided, and because shifting demands and

production patterns create pockets of structural unemployment, thus requiring retraining and relocation, and hence time to resolve those difficulties. The severity of these causes of unemployment varies among countries, and it varies through time within a given country. That explains why the “trend” level of unemployment, around which unemployment varies, itself varies internationally and can even vary over time, to some degree.

Is the Theory Adequate?

We noted, first, that Keynesian theory explains our second important fact – the existence of cyclical unemployment – very well. The other two facts – i.e., that unemployment does not grow continuously and that there are persistent variations in unemployment rates across nations and regions – are explained poorly or not at all. We see also that the neoclassical theory explains our first and third important facts reasonably well, but the second not at all.

Putting it another way – more scientifically – both theories fail at least one key test. Neither can therefore be fully acceptable as the definitive theory of unemployment. Thus neither can be used with complete confidence to judge the potential impact of immigration on unemployment.

The theories make quite different predictions about immigration and unemployment. Keynesian theory predicts that an increase in the labour force will raise the unemployment rate. Because immigration leads to an increase in the labour force, it will cause unemployment. The increase in the labour supply has the same effect, analytically, as a decrease in labour demand. Both raise unemployment. Since the “big models” are based on Keynesian theory, it is therefore not surprising that they predict that immigration will cause unemployment.

Neoclassical theory, on the other hand, predicts that immigration will leave the unemployment rate unchanged. An increase in labour supply will cause, at most, a temporary ripple in the unemployment rate. The demand for labour will adjust automatically to soak up the extra supply.

Thus we are faced with a dilemma. The theories are both partly successful and partly defective in explaining important relevant facts. They make virtually opposite predictions about the impact of immigration. To settle the issue, inevitably somewhat tentatively, we pursue the analysis further, in two ways.

First, note that neoclassical theory would be expected to have the greatest chance of being correct whenever

autonomous changes to labour supply or demand are gradual, especially if they are anticipated. Under those conditions, the automatic corrective forces have time to work, and the requisite adjustments to spending – particularly investment spending in response to profit-seeking by business – are more likely to be made. What that implies is that a gradual increase in immigration to a higher level, followed either by an equally gradual decrease or by a sustaining of immigration at the new level without sharp annual variations, is not likely to create unemployment. On the other hand, sharp jumps in immigration might well increase unemployment for some years, even according to the neoclassical theory, and sharp declines might correspondingly decrease it.

Second, we can subject neoclassical theory to a new empirical test of our own devising. It is based on a prediction that the theory makes, which can be checked against new data. It passes this test well. It is not as persuasive a test as we would like, since the opposite Keynesian theory does not unambiguously fail to make the same prediction.

A New Empirical Test

As we have seen, neoclassical theory predicts that when labour supply increases, labour demand will, almost simultaneously, increase in the same amount. It can also be shown, however, that, according to neoclassical theory, in most circumstances when there is labour force growth, the number of firms will increase but not the average size of existing firms.⁵ In other words, the extra investment demand will take the form of an expansion in the number of firms, not in the amount of investment per existing firm. We can test this prediction empirically by looking at historical data to see if employment growth does occur mostly through an increase in the number, rather than the size, of firms.

Keynesian theory does not clearly make the opposite prediction in the relevant historical circumstances – namely, at times when aggregate demand does happen to be growing fast enough to absorb a growing labour supply. Instead, it makes no obvious prediction one way or the other, though it is not unreasonable to interpret the literature – especially the studies justifying the accelerator and capital-stock adjustment principles – as supporting the view that Keynesian theory predicts an increase in investment per firm, not an increase in investment through the birth of new firms.

Results

Ideally, the data that should be examined would cover growth in the number of firms over a long period of time,

contrasted with growth in the size of the labour force and/or employment. What we should see, if neoclassical theory is correct, is that the number of firms should increase by the same percentage as the number of persons in the labour force and in employment.

Accurate data on the labour force and employment are available, but the same is not true for the number of firms. What we have, in the latter case, are very good estimates over a very short period of time (about five years, from Statistics Canada), moderately acceptable estimates over a medium-length period of time (10 years, from Dun & Bradstreet), and poor but perhaps usable estimates over a slightly longer period (15 years, again from Dun & Bradstreet).

We present here the 10-year information from Dun & Bradstreet as the best available test. These data, together with some pertinent information from Statistics Canada, are shown in Table 5-3.

The first two rows are of greatest interest. They show that between 1979 and 1989, total employment grew entirely through an expansion in the number of firms. That result confirms the prediction of the neoclassical theory.

Table 5-3

Change in Employment, the Number of Firms, and the Labour Force, Canada, 1979 and 1989

	1979	1989	Change
	(Thousands)	(Per cent)	
Number of companies			
Dun & Bradstreet	471	618	+31
Number of employees			
Dun & Bradstreet	9,764	12,868	+32
Statistics Canada	10,395	12,486	+20
Private, nonagricultural companies			
Dun & Bradstreet	459	599	+31
Private nonagricultural employees			
Dun & Bradstreet	9,078	11,570	+27
Statistics Canada	9,210	11,208	+22
Labour force			
Statistics Canada	11,231	13,503	+20

SOURCE Special tabulations from Dun & Bradstreet; Statistics Canada, Labour Force Survey.

The Dun & Bradstreet data must be interpreted cautiously, however. We note that they show a 32-per-cent increase in employment, whereas the Statistics Canada data shows increases of only 20 per cent for both employment and the labour force.

Such an overstatement of the increase causes no problem for the great majority of uses to which the Dun & Bradstreet data are put, but it is a weakness from our point of view. The main reasons for the overstatement probably lie in three problems with these data: that the figures for agriculture include only large commercial operations rather than all farms; that the figures for public administration, notably the definition of a "company," are difficult to interpret and have changed in meaning through time; and that both employment and numbers of firms are sometimes double-counted — when both a company and its holding company are included in the data, for example.

We allow for the first two problems by dealing with only private nonagricultural activity, in the last three rows of Table 5-3. The third problem could not be corrected for. We note that both the level and the rate of increase in employment are now somewhat closer to the Statistics Canada data. That is reassuring. At the same time, the earlier conclusion still largely holds — namely, that an increase in the number of firms rather than in the size of existing firms accounts for employment growth. The reservation is that the number of firms has, if anything, increased slightly faster than employment, so that the average firm size has declined somewhat.

The increase in the number of firms is worth mentioning. An extra 140,000 firms were in business in the private nonagricultural sectors in 1989, compared with 1979 — and this, despite the recessionary conditions that were present during the 1980s. The average increase of 14,000 firms per year is actually the net result, as is well known, of much higher gross birth and death rates of firms.

If we disaggregate the Dun & Bradstreet data by industry, by labour market area, or both, the neoclassical hypothesis still receives broad confirmation, although there are now a number of exceptions, of both forms: cases where the number of firms grows more slowly than employment, so that employment per firm rises; and cases where the number of firms grows more rapidly than employment, so that the average size of firms declines. In nearly all cases, however, growth in the number of firms is extremely important as a

source of total employment growth. In that sense, the neoclassical view holds up well. Data from the United States also tend to confirm the neoclassical view of employment generation.

Conclusions

We have presented four types of evidence: statistical associations across countries and regression analyses through time, relating the size of population or its rate of growth to the rate of unemployment; results from the simulations with the "big models"; detailed theoretical considerations with respect to the economics literature on the causes of unemployment; and results of some new empirical testing of one of the two main competing theories of unemployment.

It is our judgment that the weight of the evidence favours the conclusion that immigration hardly ever has any effect on the unemployment rate. This will be particularly true if any increase in immigration is phased in smoothly and gradually, so that the automatic mechanisms cited by the neoclassical theory of employment creation will operate in the most favourable climate.

It seems to us that the international cross-sectional evidence on population and labour force size and unemployment rates, and the time-series evidence for Canada on the lack of correlation between rates of change of the labour force and unemployment rates, are particularly compelling. The latter evidence is especially important, in that it suggests that even temporary effects do not occur.

When it comes to the two theories, there is little question that Keynesian theory does an excellent job of explaining cyclical swings in unemployment, but that is largely irrelevant to the question of what would happen if the rate of growth of the labour force were permanently raised by an increase in the flow of immigration. To that question, the neoclassical theory offers the better answer. It is a plausible answer, rendered more so by the test of that theory described briefly in the preceding section.

In sum, we feel that the impact of an increase in immigration on the unemployment rate would almost certainly be negligible. The results from the big models, indicating that this is not the case, appear to be unreliable because they are being applied to a problem for which they are not appropriate.

6 Scenarios for the Future

The future of Canada looks very different – demographically, regionally, and socially – depending on the immigration scenario one chooses to look at. And these differences matter for the hosts, over and beyond any effects on their individual income and job opportunities.

The most obvious effect that immigration has is that on the size of Canada's population and, through that, on the country's economic and political power. The distribution of population and power among provinces is also changed. The future proportions of different ethnic minorities alter with immigration, and the change is not the same in each province. The tendency for immigrants to favour large cities – especially the very largest cities – means that all changes show up there in magnified form. There may be provincial variations, too, in per-capita income gains and in the fiscal position of each provincial government.

These effects are described for three scenarios to the year 2015: one that posits no net immigration at all; one that assumes a continuation of immigration at levels corresponding approximately to those of the past 20 years; and one that postulates a substantial increase in immigration.

The differences among those scenarios, and what they tell us and do not tell us, can be better appreciated if one looks at some of the details of the assumptions made in constructing them.

Assumptions

Scenario I shows what would happen if no net immigration occurred in the future. That would imply a substantial fall from present immigration levels.

Scenario II sets net immigration at 0.4 per cent of population annually until 2015. This figure is slightly above the average maintained over the past 20 years (0.33 per cent) but about equal to the average level of the past five years; although it is less than the average since the Second World War (0.5 per cent) and also less than very recent actual levels and those planned for the immediate future (about 0.6 per cent), it has some claim to being thought of as a "business-as-usual" scenario. In this and the next scenario, everyone who achieves immigrant status is included –

"regular" immigrants as well as refugees (who are counted only when they obtain immigrant status).

Scenario III is an expansionary case. In this scenario, we ask what would happen if immigration levels as a proportion of population were to be increased further – from 0.4 to 0.8 per cent.

Once the likely outcome of each of the three scenarios is known, it is relatively easy to interpolate different outcomes from one's personal view of what immigration levels ought to be. For example, appropriate interpolation somewhere between Scenarios I and II enables one to see the implications of varying degrees of reduction of immigration from present levels, while interpolation between Scenarios II and III suggests the implications of varying degrees of expansion.

How far a scenario should go into the future is another choice to be made. We decided to project 25 years ahead, to the year 2015. Peering into the future beyond that date would be interesting, but demographic projections become increasingly unreliable as the estimation period is lengthened. Even at 25 years, the results are quite debatable. But a projection period of less than 25 years does not adequately bring out the long-run consequences of shorter-term decisions.

Certain reservations should be kept in mind. As already pointed out, demographic projections tend to be notoriously difficult and unreliable. While we have assumed a continuation of fertility rates at their present low levels, shifts in fertility behaviour, even when they are well within the range of past observations, can change the picture even within as short a timespan as 25 years. As for emigration rates, they are quite low at the moment; we have supposed that they will remain low, but it is also possible that they might not. Predictions of the destinations of immigrants are also unreliable. Immigrants currently say they intend to go to Ontario and British Columbia – and to Toronto, Vancouver, and Montreal – in numbers that represent disproportionately high percentages of the populations of those places. The scenario projections assume that these destinational patterns will continue, but there is the possibility that they might not, because of crowding effects. The scenario projections by province are also sensitive to the assumptions made about interprovincial movement by people already in Canada. We have assumed patterns similar

to those of the past decade, which may well be implausible in some cases.

Another difficult question has to do with the proportions of immigrants coming from different areas of the world. Over the past few years, the percentage of immigrants from Europe has declined relative to that from the rest of the world. Should one assume no further decline and no further increase, as we have done? Perhaps this is unwise, especially for the high-growth scenario, for recent developments in Eastern Europe might mean an increase in the immigration from there. Both possibilities should be kept in mind. Finally, the comments on Canada's relative size and power in relation to various European countries and to the United States rest on assumptions that demographers make in projecting those countries' populations – assumptions that are at least as controversial as those made in projecting Canada's own population.

Size of Canada

Under Scenario II – which assumes a “business-as-usual” net immigration rate of 0.4 per cent – Canada would have a population of about 32 million in 2015. That figure is 20 per cent higher than the 1990 level (26.58 million). Without immigration (Scenario I), the population would be 28 million – only 7 per cent higher than in 1990. Under Scenario III (net immigration of 0.8 per cent), the figure would reach 36 million – 35 per cent above the 1990 level.

Under all three scenarios, Canada's population will remain well below that of the major European nations. Even under the high-immigration scenario, it is unlikely to equal more than two thirds the populations of the United Kingdom, France, or Italy – or to even approach half the population of Germany. Demographically, therefore, Canada will continue to be a small power.

In terms of economic power, however, as measured by the size of aggregate gross national product (GNP), the level of immigration chosen might make a difference that some would consider significant. Under high immigration, Canada could well shift from small- to medium-power status. To be more specific, if Canada maintains its current superiority over the United Kingdom and Italy in per capita GNP, it could, with high immigration, surpass both of these nations in total economic power by, or shortly after, the year 2015.

Compared with the United States, Canada will remain very small indeed, under any immigration scenario. With respect to its large neighbour, the choice about immigration makes almost no difference to this country's relative power.

Provincial Impacts

We present the story from each province's point of view. The basic source data are in Table 6-1.

International immigration into Canada is largely irrelevant for Newfoundland, New Brunswick, and Prince Edward Island. The projected population in all three provinces will hardly have changed by 2015, under all three scenarios. The share of these provinces in the national population will decline over the next 25 years – a trend that will continue if there is an increase in immigration, since that will lead to more population in the rest of Canada.

The population of Nova Scotia is expected to rise modestly under all scenarios – a little more so with high immigration than with constant immigration or none. In terms of share of the national population, however, the province will lose under all three scenarios.

Immigration may be largely irrelevant to Quebec's anxieties about its weight in Confederation. Under all three scenarios, Quebec's relative population size will drop by about 3 percentage points. However, immigration will convert absolute population decline into absolute population growth: under Scenario I (no immigration), Quebec's population would fall by 6 per cent by 2015; with the business-as-usual immigration of Scenario II, population would grow by 4 per cent; with the immigration expansion assumed in Scenario III, population would rise nearly 15 per cent.

Ontario's population will expand, absolutely and relatively, with or without immigration. Immigration will, however, make that expansion substantially larger.

Without any immigration at all (Scenario I), Ontario would grow by about 1 million persons by 2015 and would increase its share of the Canadian population slightly. With a continuation of the immigration levels of the last 20 years (Scenario II), it would have an extra 3 million people by 2015, and its population would rise from 37 to 39 per cent of the national total. Under Scenario III, the increase would be a huge 5 million; Ontario's population in 2015 would be almost 50 per cent greater than its current level and would equal 40 per cent of the national total.

Without immigration, Manitoba's population would remain stable or would decline slightly, as would its share of the national total. Scenario II immigration levels would give Manitoba a 13 per cent increase in population (an extra 146,000 people). Its share of Canada's population would still fall slightly, however, because growth at the national level would be somewhat faster than Manitoba's. With the

Table 6-1**Population, Canada, by Province, 1990 and 2015 (Based on Three Net-Immigration Scenarios)¹**

	Population				As a proportion of national population			
	1990	Scenarios for 2015			1990	Scenarios for 2015		
		I	II	III		I	II	III
(Thousands)								
Newfoundland	569	551	554	557	2.1	1.9	1.7	1.5
Prince Edward Island	130	138	142	146	0.5	0.5	0.4	0.4
Nova Scotia	892	935	977	1,026	3.4	3.3	3.1	2.9
New Brunswick	724	720	718	716	2.7	2.5	2.3	2.0
Quebec	6,762	6,340	6,999	7,746	25.4	22.4	22.0	21.6
Ontario	9,731	10,596	12,401	14,448	36.6	37.4	38.9	40.2
Manitoba	1,090	1,068	1,236	1,426	4.1	3.8	3.9	4.0
Saskatchewan	1,000	1,090	1,170	1,260	3.8	3.8	3.7	3.5
Alberta	2,470	3,111	3,414	3,757	9.3	11.0	10.7	10.5
British Columbia	3,132	3,668	4,149	4,695	11.8	13.0	13.0	13.1
Yukon	26	24	24	25	0.1	0.1	0.1	0.1
Northwest Territories	54	73	76	80	0.2	0.3	0.2	0.2
Canada	26,580	28,314	31,860	35,882	100.0	100.0	100.0	100.0

1 Scenario I: no immigration; Scenario II: net immigration of 0.4 per cent of population; Scenario III: net immigration of 0.8 per cent.

SOURCE Data from Statistics Canada, and estimates by the Economic Council.

high immigration of Scenario III, Manitoba's population would rise by one third by 2015 and its share of population would remain close to the 1990 level. Thus the amount of immigration will make a very substantial difference to Manitoba's absolute size but not to its relative power within the Canadian federation.

The relative share of Canada's population in Saskatchewan would decline under Scenarios II and III, but not under the no-immigration hypothesis. Immigration will, however, make a significant difference to the actual number of people in the province. Without immigration, its population would grow by 9 per cent to 2015; under Scenario II, it would grow by 17 per cent; and under Scenario III, by 26 per cent.

Perhaps surprisingly, Alberta and British Columbia are projected to fare very similarly under the various scenarios. They will both experience large growth in absolute numbers and in their respective shares of the national total.

Without any immigration, Alberta's population would grow by 26 per cent and British Columbia's, by 17 per cent. Scenario II increases these figures to 38 per cent for Alberta and 32 per cent for British Columbia. Scenario III lifts them to 52 per cent for Alberta and 50 per cent for British Columbia:

by 2015, Alberta would have nearly 4 million people; British Columbia, nearly 5 million. We must point out, however, that our projections for Alberta are quite sensitive to the assumption made about interprovincial migration to that province.

The increase in the share of the national total by 2015 will be about the same with high immigration as with low immigration or none. Together, the two provinces will go from 21 per cent of the total today to about 24 per cent, irrespective of the level of immigration.

Changes in the Proportions of Visible Minorities

The subject of visible minorities is a delicate one, one that is fraught with pitfalls; but in a report on immigration, it can neither be ignored nor obscured with euphemisms. Most people want to know how the proportions of visible minorities will change as a result of immigration. While such information could be used improperly to fuel racist sentiments, we also believe that judicious use of data on visible minorities will increase the chance that policy can be properly managed so as to allow a colour-blind immigration stance while avoiding the emergence of racial problems.

That said, the data in the precise form that is needed do not exist. Data are available on the national origins of immigrants to Canada, not on their colour. What we can estimate, however, is the stock of persons originating from groups of countries that correspond fairly closely but by no means exactly, to Africa, Asia, and Europe, under our three scenarios. "European origin" is defined here to include North and South America (except the Caribbean), Europe, and Oceania; for statistical reasons, it also includes Canada's native peoples.¹ "African origin" covers all of Africa – including North Africa and the Republic of South Africa, plus the Caribbean and the Middle East. "Asian origin" includes India and the rest of Asia.

Canadians are still predominantly of European origin, as defined above. Table 6-2 shows that 96 per cent are in this group. Of the rest, 2.5 per cent are of Asian origin, and 1.5 per cent are of African origin. While there are differences among the provinces, they are much smaller than one might expect. The provinces with the highest proportions of visible minorities are British Columbia, Ontario, and Alberta, in that order, but those proportions are relatively very small. In British Columbia, 93.6 per cent of the population is of European origin; the rest is mostly of Asian origin, so that in the province as a whole about one person in 20 is of Asian origin. The proportion is naturally higher in Vancouver, but even there it is still quite low (see below). In Ontario, the proportions are 94.5 per cent for persons of European origin, 3.2 per cent of Asian origin, and 2.3 per

cent of African origin; the proportions are very similar for Alberta, with the exception of that of people of African origin, which is slightly smaller than Ontario's.

It is our experience that these figures will be greeted with incredulity by some people, as reality is often overwhelmed by perception. As a corrective to this, we suggest counting as one walks along the streets, not only in downtown areas but in residential areas and suburbs as well.

Manitoba, Quebec, and Saskatchewan have even higher proportions of people of European origin. Quebec is more predominantly "European" (97.4 per cent) than any other province or region except Saskatchewan and the Atlantic provinces.

The Atlantic region has an exceedingly small proportion of visible minorities. Although our data, for unavoidable technical reasons, exclude Nova Scotia's native black population, the latter's inclusion would not increase that proportion significantly.

Scenario I

The great predominance of people of European origin that Canada has today would not change under the zero-immigration scenario, because it is assumed that birth rates are similar across all groups (Table 6-3). Although no direct evidence of this exists for Canada, research done in other countries indicates that immigrants (of whatever origin) adopt, within the second generation and often sooner, the fertility habits of the host community.

Scenario II

A 25-year continuation of the average immigration levels of the past 20 years would change the picture. The changes would be negligible from one perspective, dramatic from another.

The proportion of people of European origin would remain very high under this scenario – 90 per cent. This would still leave Canada more "European" than the United States is today. If one looks at the results another way, the proportion of people of non-European origin would more than double, to 9.9 per cent. Three quarters of these would be of Asian origin, while one quarter would be of African origin (including those from the Caribbean area).

With the exception of the Atlantic region, projected interprovincial differences are surprisingly small. As before, British Columbia and Ontario would have the highest

Table 6-2

Proportion of People of European, Asian, and African Origins, Canada, by Province, 1986

	European	Asian	African	Total
(Per cent)				
Newfoundland	99.7	0.2	0.1	100.0
Prince Edward Island	99.6	0.2	0.2	100.0
Nova Scotia	99.3	0.4	0.3	100.0
New Brunswick	99.7	0.2	0.1	100.0
Quebec	97.4	1.0	1.6	100.0
Ontario	94.5	3.2	2.3	100.0
Manitoba	96.7	2.7	0.6	100.0
Saskatchewan	98.6	1.1	0.3	100.0
Alberta	95.4	3.4	1.2	100.0
British Columbia	93.6	5.5	0.9	100.0
Canada	96.0	2.5	1.5	100.0

SOURCE Estimates by the Economic Council, based on data from Statistics Canada.

Table 6-3
**Proportion of People of European, Asian, and African Origins, Canada, by Province, 2015
(Three Net-Immigration Scenarios)¹**

	Scenarios								
	I			II			III		
	European	Asian	African	European	Asian	African	European	Asian	African
(Per cent)									
Newfoundland	99.7	0.2	0.1	99.5	0.4	0.1	99.3	0.5	0.2
Prince Edward Island	99.6	0.2	0.2	98.6	1.0	0.4	97.5	1.9	0.6
Nova Scotia	99.3	0.4	0.3	97.7	1.7	0.6	96.0	3.1	0.9
New Brunswick	99.7	0.2	0.1	99.7	0.2	0.1	99.8	0.1	0.1
Quebec	97.4	1.0	1.6	92.0	4.8	3.2	87.1	8.2	4.7
Ontario	94.5	3.2	2.3	87.4	8.8	3.8	81.4	13.5	5.1
Manitoba	96.7	2.7	0.6	89.3	9.4	1.3	82.9	15.1	2.0
Saskatchewan	98.6	1.1	0.3	94.5	4.7	0.8	90.4	8.3	1.3
Alberta	95.4	3.4	1.2	90.4	7.9	1.7	85.7	12.1	2.2
British Columbia	93.6	5.5	0.9	87.2	11.6	1.2	81.4	17.1	1.5
Canada	96.0	2.5	1.5	90.1	7.3	2.6	84.8	11.6	3.6

1 Scenario I: no immigration; Scenario II: net immigration of 0.4 per cent of population; Scenario III: net immigration of 0.8 per cent.

SOURCE Estimates by the Economic Council.

proportions of non-Europeans (12.8 and 12.6 per cent, respectively) under Scenario II, compared with the national average of 10 per cent. Manitoba would also be above average, with 11 per cent; Alberta would be about average, at just under 10 per cent. All of the other provinces would have less than the national average – 8 per cent in Quebec, and 6 per cent in Saskatchewan, with provinces in the Atlantic region having only tiny proportions of non-Europeans, ranging from well under 1 per cent in New Brunswick to just over 2 per cent in Nova Scotia.

As between those of Asian and African origin, there are few surprises. Ontario and Quebec in 2015 would have the highest proportion of people of African origin (4 per cent and 3 per cent, respectively); Alberta, Manitoba, and British Columbia would each have between 1 and 2 per cent; proportions elsewhere would be 1 per cent or less. The proportion of people of Asian origin would be 7 per cent nationally under Scenario II. Above that average would be British Columbia (12 per cent), Manitoba (9 per cent), Ontario (9 per cent), and Alberta (8 per cent), while Quebec and Saskatchewan would have below-average proportions, at 5 per cent each. The proportions of Asians in the Atlantic region would remain negligible.

Scenario III

It will be recalled that under Scenario III Canada by 2015 would have a much larger population than now, at some

36 million. The ethnic mix would also be considerably altered. Today, “Europeans” in Canada outnumber non-Europeans by 20 to 1. That ratio would be reduced to 7 to 1 by 2015, under the high-immigration scenario. About three quarters of the non-Europeans would be of Asian origin.

Outside the Atlantic region, interprovincial differences would be quite small – a somewhat unexpected result. In the Atlantic region, all provinces would remain more than 95 per cent European; Newfoundland and New Brunswick, more than 99 per cent.

Ontario, British Columbia, and Manitoba would have ratios slightly lower than the national average (all about 5 to 1), while the ratios for Quebec (7 to 1) and Alberta (6 to 1) would be slightly above the average; Saskatchewan would have about 10 people of European origin to each person of Asian or African origin.

The Three Metropolises

Immigrants go more than proportionately to Canada’s large cities. Among the latter, Toronto, Vancouver, and Montreal are especially favoured destinations within their respective provinces. Not only are these cities larger and are they therefore expected to attract greater absolute numbers, but they also attract a disproportionate number of

Table 6-4
**Proportion of People of European, Asian, and African Origins, Toronto and Ontario, 2015
(Three Net-Immigration Scenarios)¹**

Origin	Scenarios					
	I		II		III	
	Ontario ²	Toronto	Ontario ²	Toronto	Ontario ²	Toronto
(Per cent)						
African	1.0	4.4	2.2	6.1	3.4	7.3
Asian	1.1	6.7	4.3	15.2	7.4	21.3
European	97.9	88.9	93.5	78.7	89.2	71.4
Total	100.0	100.0	100.0	100.0	100.0	100.0

1 Scenario I: no immigration (this projection corresponds approximately to the present ethnic mix); Scenario II: net immigration of 0.4 per cent of population; Scenario III: net immigration of 0.8 per cent.

2 Excluding Toronto.

SOURCE Estimates by the Economic Council.

immigrants relative to their percentage of the native-born population in the province. As a result, the major metropolitan areas will show greater changes, in both size and ethnicity, as immigration varies than will the rest of the province where they are located.

Under the high-immigration scenario, for example, some 81 per cent of Ontario residents in 2015 are projected to be of European origin and 19 per cent, of non-European origin. Accordingly, one would expect the non-European population in Toronto to be higher than 19 per cent and the proportion of non-Europeans to be lower than that outside Toronto. There are similar expectations with respect to the major metropolises in every other province.

To examine this "metropolitan effect," projections were made for Toronto, Vancouver, and Montreal. The assumptions underlying these projections are broadly similar to those described in connection with the provincial projections. Our assumptions here are somewhat more questionable than those for the provincial projections: it is probably easier for immigrants to move away from the initial metropolis of destination to somewhere else in the same province than it is to move to another province; consequently, the assumption that intraprovincial movement does not occur is weaker than the assumption that interprovincial movement does not occur. Moreover, the proportions of immigrants initially landing in Toronto, Vancouver, and Montreal are more likely to decline in response to growth and crowding there than are the proportions of immigrants initially landing in Ontario, British Columbia, or Quebec as a whole. On both

counts, therefore, the projections may overstate the future differentials in size and racial mix between the metropolises and their provinces.

Toronto

With no immigration, Toronto would have 4.0 million people in 2015 – just under 40 per cent of the entire population of Ontario. This would rise to 5.1 million with business-as-usual immigration, and to 6.3 million under high immigration. The proportion of the total provincial population living in Toronto would rise only slightly, however, and would remain less than half.

With respect to visible minorities, Toronto currently has 11 per cent non-Europeans, and the rest of the province has only 2 per cent (Table 6-4). Those proportions would remain unchanged under a no-immigration scenario.

Under a business-as-usual scenario, the Toronto proportion of non-Europeans in 2015 would climb to about 21 per cent, compared with about 7 per cent in the rest of the province. Within the non-European group in Toronto, about three quarters would be of Asian origin and about one quarter, of African origin.

With high immigration, Toronto would have about 29 per cent of its population of non-European origin by 2015. This is a large change from the present situation. The breakdown between people of Asian and African origin would be the

Table 6-5
**Proportion of People of European, Asian, and African Origins, Vancouver and British Columbia, 2015
(Three Net-Immigration Scenarios)¹**

Origin	Scenarios					
	I		II		III	
	British Columbia ²	Vancouver	British Columbia ²	Vancouver	British Columbia ²	Vancouver
(Per cent)						
African	0.5	1.3	0.9	1.5	1.2	1.8
Asian	1.9	9.3	5.9	17.3	9.8	23.9
European	97.6	89.4	93.2	81.2	89.0	74.3
Total	100.0	100.0	100.0	100.0	100.0	100.0

1 Scenario I: no immigration (this projection corresponds approximately to the present ethnic mix); Scenario II: net immigration of 0.4 per cent of population; Scenario III: net immigration of 0.8 per cent.

2 Excluding Vancouver.

SOURCE Estimates by the Economic Council.

same as in Scenario II. The rest of the province would have a smaller proportion of non-Europeans – just over 10 per cent in 2015.

Vancouver

Without immigration, Vancouver would continue to account, as it does at present, for about half the population of British Columbia. Just as with Toronto and Ontario, immigration would raise the proportion of British Columbians living in that metropolis, but only moderately. Nevertheless, with high immigration, Vancouver's population would approach 2.5 million by 2015.

At the present time, Vancouver's population is 89 per cent of European origin, with nearly all of the remaining 11 per cent being of Asian origin. This compares with about 98 per cent European in the rest of the province. These proportions would remain the same if immigration were to be stopped tomorrow (Table 6-5).

If immigration were held at the Scenario II level – a rate roughly equal to that of the past two decades – the situation would change significantly by 2015. Some 81 per cent of Vancouver's population would then be of European origin instead of the initial 89 per cent. Again, most non-Europeans would be of Asian origin. In the rest of the province, only about 7 per cent of the population would be of non-European origin in 2015, less than the proportion in Vancouver itself today.

In the high-immigration scenario, 26 per cent of the Vancouver population would be of non-European origin by 2015, a group consisting mostly of people of Asian origin. In the rest of the province, 11 per cent would be non-European.

Montreal

Montreal would grow by half a million more people with business-as-usual immigration than without, and by a further half-million under Scenario III. As a proportion of the provincial population, Montreal's population would grow more with high immigration, but not substantially more.

At present, Montreal's population is predominantly of European origin, with only 4 per cent being of either African or Asian origin. In the rest of Quebec, almost 99 per cent are of European origin.

Under the business-as-usual scenario, Montreal's population would become 11 per cent non-European by 2015 (Table 6-6). One third of this group would be of African origin and two thirds of Asian origin. Outside Montreal, the province would remain predominantly European, with only 5 per cent of the population being of non-European origin.

Under the high-immigration scenario, 17 per cent of the population in Montreal would be of African or Asian origin by 2015, so that those of European origin would still be very much in the majority. Among the non-Europeans,

Table 6-6
**Proportion of People of European, Asian, and African Origins, Montreal and Quebec, 2015
(Three Net-Immigration Scenarios)¹**

Origin	Scenarios					
	I		II		III	
	Quebec ²	Montreal	Quebec ²	Montreal	Quebec ²	Montreal
(Per cent)						
African	1.2	2.1	2.4	4.1	3.2	5.8
Asian	0.0	2.2	2.5	7.3	4.2	11.6
European	98.8	95.7	95.1	88.6	91.6	82.6
Total	100.0	100.0	100.0	100.0	100.0	100.0

1 Scenario I: no immigration (this projection corresponds approximately to the present ethnic mix); Scenario II: net immigration of 0.4 per cent of population; Scenario III: net immigration of 0.8 per cent.

2 Excluding Montreal.

SOURCE Estimates by the Economic Council.

the proportions of people of African and Asian origins would be the same as in Scenario II. Outside Montreal, the provincial population would be 92 per cent European.

Conclusion

An important generalization flowing from the data on Canada's three largest cities is that changes in the proportions of visible minorities would stand out much more sharply than elsewhere within their respective provinces. One may assume that a similar conclusion would apply to Winnipeg in Manitoba, Edmonton and Calgary in Alberta, and so on. Thus immigration drives a wedge between the character of the large cities and that of the rest of the country, in terms of visible minorities.

Interprovincial Differences in Per-Capita Economic Gains

As shown earlier, immigrants go disproportionately to certain provinces. It might therefore be thought that there would be large interprovincial differences in the net economic gains from immigration. In fact, the differences are very small, for various reasons.

Among the main gains from immigration are those deriving from the efficiency associated with a larger domestic market. These gains accrue to all Canadians, irrespective of their province of residence. They are passed on to the general population either in the form of prices that are lower

everywhere than they would otherwise be or in the form of wages that are higher everywhere than they would otherwise be, or through some combination of the two. In the same way, the smaller potential gains from occasionally filling labour market gaps will not favour particular provinces. These gains come in the form of greater efficiency, lower prices, or higher wages, or of some combination of these, everywhere across the country.

Another potential gain from immigration occurs if the per-capita burden of paying for public expenditures can be reduced by increasing the proportion of the population at work. Pensions are a major item among those expenditures, but immigration does not lead to gains per capita that vary by province, because most publicly funded pensions are paid for by federal taxes rather than provincial levies. The Quebec Pension Plan is the only exception (we comment further on this below). We treat both the Canada Pension Plan and the Quebec Pension Plan, incidentally, as tax-financed transfers – which is what they are, in effect – rather than as funded programs. The effect of pensions being federally funded is that any gain that immigration might bring in easing the pension burden will be spread across people, regardless of their province of residence or of the number of immigrants that the province might attract. Accordingly, we do not consider the effect of immigration on pensions any further here, our focus being on interprovincial differences in gains.

Pensions aside, the major immigration-sensitive public expenditures are those on health care and education. Health-care expenditures per capita tend to fall with more

immigration, because the latter changes the age distribution. Similarly, education expenditures per capita tend to rise. Health and education expenditures are mainly provincially funded, so that any net gain will vary by province.

Gains from immigration in the form of lowered tax burdens are shown for two immigration scenarios in Table 6-7. The variation in gains across provinces is very small, mainly because the gains themselves are very small. Manitoba is the province that would receive the largest net gain: if net immigration were to be raised from 0.4 per cent to 0.8 per cent, Manitoba's provincial taxes would be lowered slightly (taking into account only the impact of immigration) – by an annual amount of \$98 per capita in the year 2015. At the other extreme, taxes in New Brunswick would be very slightly higher – by \$15 per capita per year in the year 2015.

The other provinces would fall between Manitoba and New Brunswick. Thus all gains or losses would be very low. Given the inevitable statistical and conceptual difficulties in compiling results like those in Table 6-7, the appropriate conclusion to draw is that no differences of any importance exist in the regional impacts of immigration on the burden of taxes or dependency.

Two questions arise with respect to these conclusions. First, would the results about regional differences in effects change much if the impact of immigration on other government expenditures – other than those on health, education, and pensions, that is – and revenues were taken into account? We were unable to examine this question exhaustively, but partial checks leave us confident that a more comprehensive analysis would have little impact on our conclusions. And second, should results be modified for Quebec, given that the Quebec Pension Plan is provincially rather than federally funded? A check on this question shows that allowing for this factor makes no significant difference.

Regional Disparities

Immigration has the potential to affect regional disparities, since immigrants do not go to each region in proportion to the number of people already there. Some provinces – Saskatchewan and the Atlantic provinces – receive a disproportionately small number of immigrants.

The most disturbing regional disparities are in unemployment rates. The chances of finding and holding a job are considerably better than the national average for those who live in Ontario, considerably worse than average in the Atlantic provinces (especially Newfoundland), and about

average elsewhere. The Prairies used to be better than average, but their relative position has worsened over the past few years. It is not yet clear whether this is a permanent change.

As we have seen in Chapter 5, immigration seems unlikely to affect unemployment. That being so, it will also leave regional disparities in unemployment rates unaffected, regardless of the scenario considered.

A possible, very minor, reservation is that if a rapid increase in immigration were permitted, that might temporarily reduce disparities by temporarily raising unemployment in the host regions. Since these are, on average, regions of relatively low unemployment (British Columbia apart), the effect could be a short-lived reduction in disparities. Even this effect might be mitigated by international migrants displacing interregional migrants.

The other main type of regional disparity is in earned incomes per worker. We have argued above that beneficial scale effects will spread across the regions, so that no differential change to earned incomes can be expected on this account. The same argument applies to what is, in all likelihood, the very small effect that immigration has on efficiency by filling labour market gaps.

Another possibility is that if the occupational structure of the general population differs significantly from one region to another while that of the immigrants does not, that could have an effect on earned-income differentials across the regions. To illustrate this point, suppose that immigrants were all highly skilled and that one province had mostly skilled people while another had mostly unskilled workers. At the national level, immigration would be expected to alter wage differentials in favour of the unskilled and against the skilled. In the province with mostly skilled people, therefore, average earned incomes would fall, or would rise less in real terms, as time went by; in the province with mainly unskilled people, on the other hand, average earned incomes would rise, or rise faster, as time went by. As a result, the earned-income differentials between the two provinces would narrow. However, this would be a purely statistical artifact. What matters, from the point of view of regional disparities, is not whether average incomes are the same in all provinces but whether a person with the same qualifications will earn less in one province than another. In our hypothetical example, the earnings advantage of the skilled over the unskilled may be less after immigration, but the difference between provinces, for unskilled and skilled individuals, will be unaffected. As in the hypothetical example, so in the real world a difference in occupational structure between immigrants as a group and the population of

Table 6-7

Health and Education Expenditures, Canada, by Province, 1989 and 2015 (Two Net-Immigration Scenarios)

	Health		Education		Total difference, health and education	
	2015		2015			
	1989	0.4-per-cent immigration	0.8-per-cent immigration	1989	0.4-per-cent immigration	
(Dollars per capita)						
Newfoundland	1,410	1,815	1,811	-4	1,223	892
Prince Edward Island	1,407	1,504	1,515	+11	1,136	963
Nova Scotia	1,683	1,905	1,890	-15	1,221	995
New Brunswick	1,534	1,932	1,953	+21	1,164	877
Quebec	1,702	2,271	2,178	-93	1,367	1,103
Ontario	1,877	2,230	2,154	-86	1,265	1,094
Manitoba	1,820	2,093	1,966	-127	1,279	1,097
Saskatchewan	1,824	1,975	1,915	-60	1,337	1,214
Alberta	1,900	2,358	2,340	-18	1,442	1,269
British Columbia	1,802	2,075	2,067	-8	1,079	944
Canada	1,790	2,171	2,112	-59	1,284	952
						-
						-
						-36

Source: Estimates by the Economic Council.

one or more provinces will not lead to changes in regional disparities, if these are properly measured.

The remaining possible effect of immigration on disparities is through changes to the burden of taxes paid by existing residents in each province; that effect has already been discussed. Relative to income disparities, it is exceedingly small.

We conclude that the impact of immigration on regional disparities is probably small enough to neglect.

The Alternative Canadas Possible

Let us emphasize that we do not wish to imply that any one of the three scenarios is necessarily a good policy option. The scenarios are merely designed to provide a guide to the kinds of Canada that would emerge, over the long haul, at varying levels of immigration.

Scenario I

Under Scenario I, which assumes no further immigration, a Canada very much like the present one would emerge. The total population in 2015 would be close to what it is now. Real income per capita would be 29 per cent higher than now, assuming annual increases of 1 per cent (not an unreasonable rate, in light of the experience of the last few years). Canada's position relative to Europe would remain about the same; relative to the United States, it would become substantially smaller than now. The racial mix would be similar to today's. The distribution of population and power among the provinces would change somewhat, with Quebec, the Atlantic provinces, Manitoba, and Saskatchewan being relatively smaller, and Ontario, British Columbia, and Alberta being relatively larger.

Scenario II

In Scenario II, the continuation of immigration at present levels is assumed. Canada's population would then grow to about 32 million by 2015. In relative terms, Canada would still be smaller than any of the major European nations.

Living standards would improve somewhat in comparison with the no-immigration scenario, but not very much. The 25-year improvement in per-capita income would differ very little from that obtained under Scenario I: 30 per cent vs. 29 per cent.

The ethnic mix would be somewhat different; instead of Canada's population being 96 per cent of European origin,

as at present, that proportion would be 90 per cent. Three quarters of non-Europeans would be of Asian origin and one quarter, of African origin. As for the differences between the provinces in the overall proportions of people of European and non-European origins, they would not be nearly as great as might have been expected, except in the Atlantic region. The highest proportion of non-Europeans would be in British Columbia (13 per cent); outside the Atlantic region, the lowest would be in Saskatchewan (6 per cent).

In the major metropolises – Toronto, Vancouver, and Montreal – the proportion of Europeans would be smaller, and those of Asians and Africans would be larger, than in the rest of the nation or in the rest of their respective provinces. Toronto would have a 21-per-cent non-European population in Scenario II; Vancouver, 19 per cent; and Montreal, 11 per cent. These cities today are distinctly more ethnically diverse than the rest of the country; the continuation of present immigration levels would accentuate that difference.

The distribution of population and of the associated economic power among the various provinces would not be much different from what it is under the no-immigration case. The same relative losses and gains would emerge. The only important difference is that with Scenario II, Quebec would avoid a significant absolute population decline, although it would still decline in relative size.

Scenario III

The high immigration of Scenario III would come closest to changing Canada from a small to a middle-ranked power by 2015. The country would become about two thirds the size of present-day France, Italy, or Britain and, by 2015, might be comparable to the latter two nations in aggregate economic power.

Per-capita incomes would not be greatly affected. Rather than the improvement in incomes of 29 per cent and 30 per cent projected under Scenarios I and II, respectively, there would likely be an increase of about 32 per cent, taking into account both scale and dependency effects. Either way, the differences between the scenarios in per-capita economic welfare would be small.

Along with a larger and more powerful nation would be a somewhat changed racial mix. About one in seven Canadians would be of non-European origin; and of that group, three quarters would be of Asian origin and one quarter, of African origin. Differences between the provinces, again excluding the Atlantic region, would be surprisingly small.

The distribution of population would be much like that in Scenario II. Manitoba, British Columbia, and Ontario would be better off in relative terms under the high-immigration scenario, while the Atlantic provinces would gain little in absolute terms (except for Nova Scotia) and would continue to decline in relative terms. Although the populations of Alberta, Saskatchewan, and Quebec would continue to grow in absolute terms – and while the Quebec population would avoid the decline it would experience under Scenario I – the higher-immigration scenarios would lead to a relative decline in those provinces.

On the other hand, there would be sharp differences between Toronto and the rest of Ontario, Vancouver and the rest of British Columbia, and Montreal and the rest of Quebec. Similar differences would probably exist between other provincial metropolises and the remainder of their provinces. Over one quarter of Torontonians – but just over one tenth of Ontarians residing outside Toronto – would be of non-European origin; in British Columbia, the proportions would be one quarter for Vancouver and one ninth elsewhere; in Quebec, one sixth in Montreal and one thirteenth elsewhere.

Summary

The main points of our simulations can easily be summarized. Going from zero immigration to high immigration provides, by 2015, options ranging all the way from a Canada that would remain more or less at its present size and relative power to a Canada that would approach modest comparability with some of the major nations of Europe. Per-capita living standards would not vary much, whichever choice is made; there would be a slight per-capita gain in the bigger-nation options. As the size and power of Canada grow from one option to the next, its racial mix would move from a predominantly European population to one comprising substantial non-European minorities. In Toronto and Vancouver, the change would be larger. Finally, the relative distribution of population and economic power among the provinces is not very sensitive to immigration. The population shares of Ontario, British Columbia, and Alberta would rise under all scenarios, while they would fall for Quebec, the Atlantic region, Saskatchewan, and Manitoba. Two provinces, Quebec and Manitoba, would avoid declining populations if immigration were high enough, although they would still lose part of their respective shares of the national population.

7 The Economic Performance of Immigrants

Until now, we have focused on the effect of immigration on the host society. However, the economic performance of immigrants is also worth examining, for two reasons.

First, the performance of immigrants relative to their own expectations has an effect on the ease with which they integrate into Canadian society. If, after an appropriate adjustment period, immigrants do not do as well as their qualifications lead them to expect, they will become discontented. That could cause social frictions, especially if the gap between reality and expectations is greater for the so-called "visible minority" immigrants – those whose skin colour sets them apart from the white majority. Since social frictions damage hosts as well as immigrants, the question whether discrimination lowers the economic performance of immigrants, either as a group or only those who belong to a visible minority, impinges directly on the well-being of the hosts.

Second, there is a public perception, important to many Canadians' self-esteem, that Canada is a hospitable nation to immigrants. It is widely believed that immigrants do well by coming to this country. It is important to know if that perception is correct. The feeling of doing good represents a genuine gain to the hosts, if justified.

In this chapter, we therefore address the issue of how well immigrants fare after their arrival, relative to comparably qualified Canadian-born persons. While several studies have been devoted to the economic performance of immigrants by comparing their earnings with those of Canadian residents with similar qualifications, the question remains undecided. Some of these studies claim that immigrants have done quite well by pointing out that within about 20 years after their arrival, immigrants have been able to match the earnings level of the native-born [Chiswick and Miller 1988; Meng 1987]. However, other studies argue that this is not true of all immigrant groups, especially of some of the new groups who came during the 1980s [Beaujot et al. 1988; Richmond 1989]. Thus there is no consensus on the subject, but it must be said that many of these studies are based on data from the 1971 and 1981 censuses and hence may be somewhat outdated. We attempt here to re-examine the issue of the economic performance of immigrants by looking at evidence from the 1986 census.

Characteristics of the Immigrant Population

To set the stage for the later analysis of the economic performance of immigrants, it is useful to describe Canada's immigrant population in some detail. In 1986, the total population was just over 25 million people, about 16 per cent of whom had come to this country as immigrants. That proportion had been roughly the same since 1951.

Time of Entry, Country of Origin, and Category

Nearly 60 per cent of adult immigrants (over 15 years old) in 1986 had come to Canada before 1970 (Table 7-1). Another 29 per cent or so had arrived during the 1970s; the remaining 11 per cent were recent arrivals. More than two thirds of the immigrant population came from continental Europe, the United Kingdom, and the United States – the so-called persons of traditional immigrant origin (TIOs). One third was made up of people of new immigrant origin (NIOs), who came from the Caribbean, Asia, Africa, South and Central America, and Oceania.

One other point of interest is that, of the immigrants who came to Canada before 1970, 86 per cent were from the United Kingdom, the United States, and Europe. That proportion has been declining steadily since 1970, however: 48 per cent of immigrants who arrived during the period 1970-74 were TIOs, while the corresponding figures for 1975-79 and 1980-86 are 39 and 36 per cent, respectively. At the same time, immigration from nontraditional sources displayed exactly the opposite trend, with the proportions of people from Asia, Africa, Latin America, and the Caribbean increasing steadily during the period after 1970. Thus it is fair to state that the majority of TIOs came during the period before 1970, whereas most of the NIOs have immigrated since then.

More than 60 per cent of the immigrant arrivals during the period 1980-86 consist of family-class immigrants and refugees (Table 7-2). Contrary to public perception, the independent class accounts for less than 40 per cent of all immigrants who arrived during the 1980s. About 50 per cent of the independents came from TIO countries such as the

Table 7-1

Adult Immigrant Population,¹ by Place of Birth and Period of Immigration, Canada, 1986

	Number	Distribution by place of birth	Period of immigration			
			Before 1970	1970-74	1975-79	1980-86
(Thousands)			(Per cent)			
Place of birth						
United States	150	6.3	5.9	8.3	5.9	5.6
Caribbean	134	5.6	2.9	11.7	9.9	5.6
South and Central America	91	3.8	1.4	6.4	7.8	7.7
United Kingdom	466	19.4	23.9	14.1	13.8	10.0
Other Western Europe	158	6.6	9.1	2.8	3.0	2.9
Central Europe	294	12.2	16.7	4.1	4.2	9.8
Southern Europe	476	19.8	25.5	17.7	9.6	4.8
Eastern Europe	56	2.3	3.0	0.6	1.7	2.1
Northern Europe	37	1.5	2.1	0.8	0.7	0.6
Africa	78	3.2	1.8	5.5	6.1	4.4
South Asia ²	110	4.6	1.7	8.8	8.3	8.9
Southeast Asia ³	133	5.5	1.0	6.3	12.7	19.8
East Asia ⁴	148	6.2	3.2	9.2	10.8	12.1
West Asia ⁵	48	2.0	1.1	2.0	3.9	4.4
Oceania ⁶	24	1.0	0.7	1.5	1.5	1.2
Total	2,405	100.0	100.0	100.0	100.0	100.0
Distribution by period of immigration		...	59.1	16.7	12.5	11.7

¹ Aged 15 and over, with employment income.² Mainly India, Pakistan, Sri Lanka, and Bangladesh.³ Mainly Kampuchea, Laos, Philippines, and Vietnam.⁴ Japan, Hong Kong, South Korea, People's Republic of China, and Taiwan.⁵ Israel, Lebanon, Turkey, Iran, and other Middle East countries.⁶ Australia, New Zealand, Fiji, and other South Pacific islands.

SOURCE Special tabulations based on census data from Statistics Canada.

United Kingdom, whereas about 70 per cent of both the family class and the refugee class came from NIO countries. Independents have to obtain enough points to qualify for entry, whereas the other two groups are exempt from the point system. Hence the popular view is that independents are likely to be able to make a more rapid adjustment to the Canadian economic environment than the other two groups.

Age Profile, Dependency Ratio, and Other Characteristics

The majority of immigrants came to Canada as young adults. The median age of immigrants at the time of entry was reported to be 24.9 years for 1971, but it had risen to

27.1 years in 1986. Looking at the median age of the current immigrant stock, however, a different picture emerges: the median age of immigrants in 1986 was about 40 years, compared with 30 years for the native-born. Thus the immigrant population tends to be older, on average, than the Canadian-born, although at the time immigrants enter Canada, their average age is lower than that of the native-born population. The paradox is only apparent: by definition, all Canadian-born persons are at age zero at the "time of entry," and that fact lowers the median age of the current native-born stock.

The average dependency ratio – the proportion of children aged 14 years and less and of persons aged 65 years and over in the total population – of individuals who came as immigrants is much lower than that of the native-born.

Table 7-2**Immigrant Flows, by Place of Birth and Category, Canada, 1980-86**

	Number (Thousands)	Distribution by origin	Family class	Refugees and designated classes	Independents
Place of birth					(Per cent)
United States	58	7.7	9.3	0.1	9.6
Caribbean	45	5.9	10.1	0.1	4.0
South and Central America	69	9.1	10.1	11.4	6.9
United Kingdom	76	10.1	7.3	0.1	18.0
Other Western Europe	27	3.5	1.9	0.3	6.8
Central Europe	63	8.4	4.0	21.3	7.2
Southern Europe	38	5.0	6.7	0.5	5.2
Eastern Europe	10	1.3	0.7	4.2	0.6
Northern Europe	5	0.7	0.6	0.1	1.0
Africa	28	3.8	3.1	3.7	4.6
South Asia	58	7.7	14.8	0.5	3.3
Southeast Asia	139	18.4	12.5	52.9	8.7
East Asia	85.	11.3	13.4	0.5	14.0
West Asia	41	5.4	3.4	4.3	8.3
Oceania	10	1.3	1.9	--	1.3
Total	755	100.0	100.0	100.0	100.0
Distribution by category		...	43.1	18.3	38.6

SOURCE Based on data from Canada Employment and Immigration Commission.

In 1986, the dependency ratio was 28 per cent for immigrants, compared with 50 per cent for the native-born – another reflection of immigrants' higher age at entry. Moreover, while immigrants have as many children as do native-born persons, many of their children were born in Canada and thus affect the dependency ratio of the native-born rather than that of the immigrants.

The gender profile of the immigrant population is very similar to that of the Canadian-born. In 1986, women made up about 51 per cent of the immigrant stock and 50 per cent of the native-born population.

Many of the immigrants are attracted to large cities. In 1986, 78.5 per cent of them lived in urban areas, compared with 45.9 per cent of persons born in Canada.

Educational Level

How well do the educational levels of immigrants compare with those of native-born Canadians? To answer that question, we consider the proportions of people with only

elementary education and those with university education, in both the immigrant and the Canadian-born populations aged 15 years and over. These two indicators are used as crude proxies of educational attainment – the former to measure the prevalence of less educated people in the two groups, and the latter as an indication of the importance of highly educated individuals.

The evidence shows that the proportion of persons with only elementary education was considerably higher among immigrants than among the native-born in 1986 (Table 7-3). Immigrants from the United Kingdom had the lowest proportion of persons with only elementary education, while those from Southern Europe had the highest. Overall, there was a general decline in the proportion of immigrants with only elementary education until the end of the 1970s, followed by a slight increase. The countries that showed a decline during the 1980s are mainly the TIOs, whereas many of the NIO countries show an increase.

With regard to university education, immigrants include a higher proportion of university-educated persons than do native-born Canadians (Table 7-4). That finding is true for

Table 7-3
Adult¹ Immigrants and Native-Born Canadians with Only Elementary Education, by Place of Birth and Period of Immigration, Canada, 1986

Place of birth	Number (Thousands)	Proportion	Period of immigration			
			1961-69	1970-74	1975-79	1980-86
			(Per cent)			
United States	6	4.3	1.3	1.2	1.3	1.0
Caribbean	10	7.3	4.4	7.6	8.3	12.6
South and Central America	11	12.6	10.9	10.3	10.6	17.4
United Kingdom	13	2.7	0.9	1.1	1.2	1.4
Other Western Europe	17	11.0	3.8	2.6	2.1	2.4
Central Europe	34	11.4	6.0	4.9	3.9	3.0
Southern Europe	207	43.5	41.4	41.6	38.7	40.0
Eastern Europe	12	22.1	18.3	9.9	5.7	4.4
Northern Europe	4	11.4	8.8	5.0	3.7	2.3
Africa	3	4.1	2.3	4.2	4.7	5.1
South Asia	10	9.2	4.8	7.8	9.8	14.5
Southeast Asia	16	11.8	2.2	2.0	9.4	20.2
East Asia	22	14.6	9.9	8.7	13.1	19.6
West Asia	6	11.6	10.7	13.2	14.1	7.9
Oceania	1	5.8	3.0	6.7	10.6	6.2
All immigrants	373	15.5	15.2	11.8	10.4	13.0
Native-born Canadians	940	8.8	...	...	...	...

1 Aged 15 and over, with employment income.

SOURCE Special tabulations based on 1986 census data from Statistics Canada.

both the 15-and-over age group and the 25-and-over group.¹ Immigrant cohorts from all of the NIO areas, except the Caribbean and South and Central America, comprise higher proportions of persons with university education than cohorts from all of the TIO countries other than the United States. The proportion of university-educated persons in the different immigrant cohorts increased slightly until the mid-1970s; it decreased very slightly thereafter but has remained much higher than among native-born Canadians. The cohorts that show declines during the 1980s are mainly from NIO countries, though here again, their proportions remain much higher than that of the native-born. Increases are frequently associated with the TIO countries.

Language Proficiency

Proficiency in either of Canada's official languages is often considered to be one of the prerequisites for successful entry into the Canadian labour market. Table 7-5 shows the home language of immigrants and native-born Canadians. In 1986, 57.5 per cent of immigrants spoke English, com-

pared with 71.3 per cent for the native-born. But only 3.3 per cent of immigrants were proficient in French, compared with 25.4 per cent for the native-born. With respect to that last statistic, however, it should be pointed out that Quebec tends to attract fewer immigrants than the rest of Canada and must therefore be considered separately in the analysis of immigrant language proficiency.

Of the immigrants living in Quebec in 1986, 23 per cent spoke French at home, 25 per cent spoke English, and the remaining 52 per cent spoke other languages. The corresponding figures for the native-born in that province were 86.2, 9.2, and 4.6 per cent, respectively. Thus French-language proficiency is much higher among immigrants in Quebec than it is at the national level, although in Quebec itself it remains considerably lower among immigrants than among the native-born population.

Returning to the national situation described in Table 7-5, the evidence shows that slightly more than a third of immigrants in 1986 spoke a language other than English or French at home. The evidence also reveals that, except

Table 7-4

Adult¹ Immigrants and Native-Born Canadians with University Education, by Place of Birth and Period of Immigration, Canada, 1986

Place of birth	Number (Thousands)	Proportion	Period of immigration			
			1961-69	1970-74	1975-79	1980-86
			(Per cent)			
United States	77	51.0	56.8	57.5	55.2	64.0
Caribbean	29	21.6	29.4	19.8	15.6	13.5
South and Central America	22	24.6	26.7	24.0	25.3	21.1
United Kingdom	123	26.5	27.8	24.1	23.8	24.7
Other Western Europe	40	25.6	32.1	36.2	35.7	36.0
Central Europe	74	25.1	27.4	29.0	30.8	35.6
Southern Europe	47	9.8	9.4	7.4	10.4	14.3
Eastern Europe	17	30.0	35.1	51.7	54.4	49.9
Northern Europe	8	23.1	21.5	26.8	33.3	31.5
Africa	35	45.5	53.7	42.3	40.0	44.3
South Asia	47	42.8	58.7	43.6	38.7	32.3
Southeast Asia	57	42.9	70.3	64.6	44.0	26.3
East Asia	57	38.3	50.3	47.0	35.6	29.2
West Asia	19	38.8	38.6	33.3	33.2	47.5
Oceania	8	31.9	41.5	26.6	22.1	25.2
All immigrants	661	27.5	28.5	31.8	31.3	30.9
Native-born Canadians	2,412	22.6	...	...	...	...

1 Aged 15 and over, with employment income.

SOURCE Special tabulations based on 1986 census data from Statistics Canada.

for the Caribbean, NIO countries report English-language proficiency levels that are significantly below the immigrant average. On the other hand, the only TIO areas displaying below-average levels are Eastern and Southern Europe. Knowledge of English has declined with each new wave of immigrants. The evidence from the earlier censuses shows a similar pattern [Beaujot and Rappak 1988, p. 71; Richmond and Kalbach 1980, p. 436]. Naturally, English-language proficiency tends to increase with the duration of residence in this country because the earlier cohorts have had more time to learn the language. This may also apply to French-language proficiency, which, according to Table 7-5, also declined slightly with the 1980-86 arrivals. Over time, there has also been an increase in the number of immigrants who speak languages other than English or French.

Some Economic Indicators

In studying the economic performance of immigrants, we use a number of descriptive indicators – labour force parti-

cipation, unemployment, earnings, occupational structure, self-employment, and dependence on welfare assistance – and perform regression analysis, using census data. We sought to test the validity of the popular view that immigrants who arrived during the 1980s are experiencing much greater adjustment difficulties than earlier immigrants or the native-born and that these difficulties are more pronounced for NIOs than for TIOs, perhaps to the point of discrimination, and also greater for refugees than for other immigrant classes.

Labour Force Participation

The labour force participation rate – the proportion of the total population who are working or looking for work – is a measure of successful integration into the labour market. In 1986, the participation rate for male immigrants was 76.4 per cent, compared with 77.7 per cent for Canadian-born males. Not only do immigrants thus appear to have virtually the same participation rate as the native-born, but because of major data problems, the comparison treats them

Table 7-5

Language Proficiency¹ of Adult² Immigrants and Native-Born Canadians, by Place of Birth and Period of Immigration, Canada, 1986

Place of birth (Thousands)	Period of immigration												
	1961-69			1970-74			1975-79			1980-86			
	Number	En	Fr	Oth	En	Fr	Oth	En	Fr	Oth	En	Fr	Oth
United States	150	92.4	4.9	2.7	93.6	3.7	2.7	94.8	3.2	2.0	93.8	3.0	3.3
Caribbean	134	86.0	6.9	7.1	92.9	4.3	2.8	86.3	7.0	6.7	81.7	9.1	9.2
South and Central America	91	57.4	1.6	41.0	72.8	1.5	25.7	59.0	1.5	39.5	48.2	1.8	50.0
United Kingdom	466	98.6	0.2	1.2	99.0	0.2	0.8	97.7	0.2	2.1	97.7	0.1	2.2
Other Western Europe	158	67.0	19.2	13.8	53.1	34.1	12.8	53.5	32.3	14.2	43.7	36.2	20.1
Central Europe	294	58.4	1.5	40.1	58.3	2.0	39.7	48.0	2.4	49.6	36.6	3.6	59.8
Southern Europe	476	26.8	1.7	71.5	25.2	1.6	73.2	18.3	1.1	80.6	14.4	1.5	84.1
Eastern Europe	56	42.0	0.8	57.2	44.7	2.0	53.3	29.8	3.2	67.0	20.6	1.0	78.4
Northern Europe	37	71.3	0.7	28.0	65.7	0.6	33.7	61.9	0.9	37.2	49.0	1.0	50.0
Africa	78	46.8	16.1	37.1	43.2	28.1	28.7	49.9	10.8	39.3	47.0	11.0	42.0
South Asia	110	35.7	0.1	64.2	59.6	0.2	40.2	35.0	0.1	64.9	26.9	0.1	73.0
Southeast Asia	133	21.6	1.1	77.3	47.2	2.4	50.4	33.9	0.8	65.3	17.6	0.9	81.5
East Asia	148	15.8	0.1	84.1	25.7	0.2	74.1	17.5	0.1	82.4	9.7	0.1	90.2
West Asia	48	30.7	4.1	65.2	42.0	5.5	52.5	31.0	4.3	64.7	20.8	4.0	75.2
Oceania	24	73.4	1.5	25.1	85.3	1.2	13.5	67.5	0.8	31.7	55.8	2.0	42.2
All immigrants	2,405	57.5	3.3	39.2	59.8	4.1	36.1	54.2	3.2	42.6	45.9	3.7	50.4
Native-born Canadians	10,669	71.3	25.4	3.3	...	...	...	...	...	...	...	...	2.9
													61.9

¹ Refers to the language most frequently spoken at home; En = English; Fr = French; Oth = other.² Aged 15 and over, with employment income.

Source: Special tabulations based on 1986 census data from Statistics Canada.

unfairly in that these participation rates were not adjusted for differences in age. If those adjustments were made, the data would probably show that immigrants in 1986 had a somewhat higher participation rate than the Canadian-born, as was the case in 1981. The 1981 data reveal that immigrant men had a participation rate, adjusted for age, of 79.1 per cent, compared with 77.8 per cent for native-born men (Table 7-6). Immigrant women also displayed a higher rate than their Canadian-born counterparts, and the discrepancy was somewhat more pronounced than in the case of men.

Two other points can be made on the basis of the 1981 data. First, there is no strong evidence to suggest that NIOs had consistently lower participation rates than TIOs. Whereas in the case of male immigrants, participation rates were slightly higher for many of the TIOs than for the NIOs, in the case of female immigrants, the highest rates were reported for those from the Caribbean and Southeast Asia, while the lowest rates were associated with those from West Asia, other Western Europe, and South Asia. Thus the pattern is quite mixed. The second point with respect to the 1981 data is that participation rates tended to increase with the duration of residence. This is also generally true for the other census years [Statistics Canada 1989, Table 1; Richmond and Kalbach 1980, pp. 278-9]. Thus the tendency for labour force participation to increase with the period of residence may be a normal phenomenon, which could be explained by the fact that a longer period of residence gives the immigrant more time to learn the language, pursue his/her education, and gain access to networks in the Canadian labour market.

Unemployment

Another measure of labour force activity is the rate of unemployment. If immigrants tend to experience unemployment to a greater extent than Canadian-born workers, then their dependence on welfare assistance will also be greater. In addition, unemployment may lead to various social problems, such as an increase in crime and ethnic conflict. Thus a comparison of the unemployment experience of immigrants and the native-born may provide valuable insights into the issue of how well the former are adjusting to the labour market. Such a comparison for 1986 shows that persons who originally came as immigrants had lower unemployment rates than their Canadian-born counterparts – 8.2 per cent vs. 10.8 per cent. The evidence also shows, however, that the unemployment rate increases with the recency of arrival. Immigrants who came relatively recently – during the period 1978-82 – have an unemployment rate of 11.5 per cent, which is only slightly higher than the

10.8 per cent recorded for the native-born. Those who arrived very recently, during the period 1983-86, report an unemployment rate of 16 per cent.

One would normally expect new immigrants to experience a higher unemployment rate than earlier cohorts because they need some time to "settle in." One way of checking the validity of this assertion would be to take a look at previous censuses to find out whether the tendency for new immigrants to experience higher unemployment was observable even in those earlier periods and, if so, whether their unemployment was higher or lower than now. Unfortunately, such information is not available.

Another reason for the higher unemployment experienced by new immigrants may be the severity of the economic downturn experienced in the mid-1980s. When the economy goes into a slump, new immigrants are likely to experience more unemployment than others for a host of reasons, including lack of seniority on the job, lack of labour market contacts, and so on. During the period 1983-86, the national unemployment rate rose to 10.8 per cent whereas it was 8.3 per cent during the period 1978-82. Thus it would be interesting to compare the unemployment experience of immigrants who came in 1978-82 and 1983-86 during their initial years of residence. Unfortunately, the relevant data are again not available from the earlier censuses.

A third explanation for the higher unemployment of immigrants who came during 1983-86 may be that they have less education, less experience, and less proficiency in Canada's official languages than immigrants who came earlier. To check the validity of this argument, we can look at some of the key characteristics of immigrants who came during the periods 1978-82 and 1983-86.

Such a comparison shows that the two cohorts are not, in fact, very different. First, they have the same median age – 30 years. Second, the proportion of people with university education is also similar in both cohorts – 27 per cent for the 1983-86 immigrants vs. 26 per cent for those who arrived in 1978-82. Third, the proportion of persons with less than Grade 9 education (used here as a proxy for less-educated persons) is about 19 and 17 per cent for the 1983-86 and 1978-82 cohorts, respectively. Fourth, 68 per cent of the 1983-86 cohort is proficient in English, compared with 74 per cent for the 1978-82 cohort. Moreover, the two groups report exactly the same level of French proficiency – 6.4 per cent. Only in terms of the proportion of allophones (people who speak neither English nor French) is there a difference. Whereas allophones accounted for 9 per cent of the 1978-82 cohort, their share had risen to 18 per cent in the case of the more recent cohort. There

Table 7-6

Labour Force Participation Rates, Adjusted for Age, of Immigrants and Native-Born Canadians, by Sex, Place of Birth, and Period of Immigration, Canada, 1981

	Total	Period of immigration										
		Before 1960	1960-69	1970-74	1975-79	1980-81						
		(Per cent)										
Men:												
Place of birth												
United States	77.8	83.6	80.3	76.8	75.8	70.9						
Caribbean	76.3	87.9	80.0	77.5	74.8	64.3						
South and Central America	79.8	87.9	82.0	80.5	81.2	69.6						
United Kingdom	80.1	86.0	82.0	81.3	81.0	78.2						
Other Western Europe	80.1	86.9	79.6	79.4	78.2	72.1						
Central Europe	80.1	86.4	80.8	79.3	76.1	66.1						
Southern Europe	81.4	86.0	81.1	81.3	82.5	76.1						
Eastern Europe	78.3	81.8	82.0	81.3	77.6	75.6						
Northern Europe	78.8	85.0	82.7	77.2	75.0	73.6						
Africa	79.0	86.1	79.9	80.3	75.8	71.3						
South Asia	78.9	87.1	81.0	78.2	79.2	69.7						
Southeast Asia	76.7	87.9	80.9	74.9	79.4	67.6						
East Asia	74.0	84.6	78.5	76.4	73.7	61.6						
West Asia	77.5	85.5	78.8	78.5	76.6	62.4						
Oceania	76.5	86.1	79.3	76.7	76.8	65.9						
All immigrants	79.1	85.9	80.8	78.7	77.8	69.2						
Native-born Canadians	77.8	...	...	...	...	...	
Women:												
Place of birth												
United States	51.6	56.8	55.5	54.7	46.5	39.3						
Caribbean	63.2	67.5	68.0	65.2	59.6	49.8						
South and Central America	53.9	55.9	59.3	58.9	52.1	33.2						
United Kingdom	56.8	61.9	59.6	57.7	55.7	45.3						
Other Western Europe	50.8	54.8	54.2	50.4	50.8	36.5						
Central Europe	54.8	59.0	57.0	55.8	50.1	37.6						
Southern Europe	53.5	58.8	54.2	53.8	49.1	41.8						
Eastern Europe	53.5	55.0	58.6	57.7	56.8	45.4						
Northern Europe	52.6	56.3	53.2	50.9	46.2	37.1						
Africa	56.8	61.7	60.1	58.1	52.2	43.0						
South Asia	51.3	65.1	59.8	52.2	48.2	35.9						
Southeast Asia	59.3	71.3	66.9	64.6	60.8	45.3						
East Asia	55.5	63.8	60.8	57.1	54.7	41.5						
West Asia	43.7	60.9	53.6	43.5	37.6	22.6						
Oceania	58.1	70.5	63.2	54.9	52.8	42.5						
All immigrants	54.6	59.1	57.3	56.7	52.5	41.2						
Native-born Canadians	51.0	...	...	...	...	...	

is no obvious way, however, in which a change from a very small (9 per cent) to a small (18 per cent) minority of allophones could significantly affect the unemployment rate. We conclude that there is very little evidence to suggest that the higher unemployment of recent immigrants is attributable to changes in their characteristics relative to earlier arrivals.

Apart from the level of the unemployment rate, there are important questions about how quickly immigrants find jobs when they first arrive and also about differences between types of immigrants in this respect. There is a public perception that refugees are much more unemployment-prone than independents and that NIOs also suffer more unemployment than TIOs. Canada's population censuses do not contain data to verify these questions, and we have to turn to other data sources.

Several studies based on longitudinal data have examined the time taken by immigrants to find jobs immediately

after their arrival, as well as their unemployment experience. Although somewhat outdated, some of these analyses deserve mention because they are the only sources of information available on some of these issues. One study [Samuel 1984] examined the unemployment experience of members of six groups of refugees who arrived in Canada at different times during the period 1957-79 (Table 7-7). The aspects examined in the study included the time taken to find employment and the rate and duration of unemployment of these refugee groups during the initial years. The evidence suggests that a considerable number of refugees in the sample found employment in a relatively short period of time and that the average duration of their unemployment periods was also rather short. For example, the refugees who experienced the greatest difficulty in finding jobs were the Indochinese who came in 1979 when Canada's unemployment rate fluctuated between 7.5 and 8.5 per cent. But even they were able to find jobs in about 16 to 20 weeks and were unemployed for only 18 weeks, on average, during the first 15 months after their arrival.

Table 7-7

Unemployment Experience of Regular Immigrants and Selected Groups of Refugees, Canada, 1957-79

	Period of arrival	National unemployment rate (Per cent)	Period until found first job	Rate of unemployment (Per cent)	Average duration of unemployment
Regular immigrants	1969-71	5.6	4 to 7 weeks	10-15 (after 6 months) 7.9 (after 1 year) 4.5 (after 3 years)	2 weeks in the first year 3.4 weeks in the second year 3 weeks in the third year
Hungarian refugees	1957-58	4.5	55 per cent found jobs in less than a month	...	61 per cent had less than 4 weeks of total unemployment in 1958
Czechoslovak refugees	1969	5	16 weeks; 29 per cent found jobs in less than 4 weeks	7.8 (after 1 year) 9.1 (after 2 years) 8.3 (after 3 years)	7 weeks in the first year 5 weeks in the second year 4 weeks in the third year
Asian refugees from Uganda	1972	6-7	...	13.7 (after 6 months) 6.7 (after 1 year)	9.1 weeks in the first year
Tibetan refugees	1971-72	6-7	...	8 (September 1974)	...
Chilean refugees	1973-75	7-8	...	12.5 (1975)	56 per cent had less than 4 weeks of total unemployment in the first year
Indochinese refugees	1979	7.5-8.5	16 to 20 weeks	10.4 (1981)	18.3 weeks during the first 15 months

SOURCE Samuel [1984, pp. 45 and 47].

Another study [Samuel and Woloski 1984] used a longitudinal survey to examine how a sample of immigrants who came in 1979 had fared in the labour market during the subsequent three years. The analysis was restricted to immigrants who had some earnings to report each year. This sample group represented 3 per cent of immigrant arrivals in 1979. The duration of unemployment was measured by the number of weeks during which unemployed persons received unemployment insurance benefits – a procedure that tends to underestimate somewhat the actual period without work, as some time normally elapses before the unemployed receive the benefits. The study found that the unemployment spells experienced by recently arrived immigrants were rather short, even during the first year after arrival (1980). The longest period of unemployment was actually in 1982, a recessionary year (Table 7-8). The authors also found the unemployment experience of immigrants to be roughly similar to that of the native-born. However, there were some minor differences among the various immigrant classes. Independents reported the shortest periods of unemployment, whereas family-class immigrants and refugees reported the longest spells. Assisted relatives occupied an intermediate position. When the authors looked at the unemployment experience of immigrants by country of origin, the main message was again similar to that reported earlier – namely, the shortness of the unemployment spells (Table 7-9). Their findings also indicate that some immigrant groups – such as those from the Caribbean, Laos, Vietnam, and Eastern Europe – are somewhat more vulnerable to unemployment than others. However, the evidence is not strong enough to warrant the conclusion that NIOs experience significantly more unemployment than TIOs. Our conclusion from this

Table 7-9
Average Number of Weeks of Unemployment of Immigrant Workers, by Place of Last Permanent Residence, Canada, 1980-82

	1980	1981	1982
Place of last permanent residence	(Number of weeks)		
Britain and Ireland	0.9	1.8	4.4
United States	2.2	2.3	6.9
Australia and New Zealand	2.8	2.1	5.1
Northern and Western Europe	1.3	2.3	4.6
Southern Europe	2.4	2.9	7.7
Eastern Europe	2.4	6.5	9.2
South Africa	0.7	0.1	4.0
Other Africa	2.2	5.0	5.3
India	3.8	4.5	7.4
Hong Kong	0.8	2.1	2.8
Vietnam	1.4	5.0	11.2
Laos	1.6	6.2	11.9
Philippines	1.4	2.2	5.9
Oceania and other Asia	1.7	2.9	5.5
Caribbean	2.1	5.4	8.8
Guyana	2.8	4.6	6.9
South and Central America	1.2	2.8	7.7
All immigrant workers	1.6	3.6	7.6

SOURCE Samuel and Woloski [1984, p. 20].

Table 7-8
Average Number of Weeks of Unemployment of Immigrant Workers, by Category, and of Canadian-Born Workers, Canada, 1980-82

	1980	1981	1982
	(Number of weeks)		
Immigrant category			
Family class	2.1	3.5	6.2
Refugees and designated classes	1.4	5.2	11.3
Assisted relatives	1.5	2.9	6.9
Independents	1.3	1.9	4.4
All immigrant workers	1.6	3.6	7.6
Canadian-born workers	3.7	3.7	6.3

SOURCE Samuel and Woloski [1984, pp. 8 and 16].

admittedly old evidence is that in the past, immigrants were able to find work astonishingly quickly. Whether this is still the case cannot be reliably detected, as there are no relevant data on this question; as discussed above, census data are not a reliable guide in this instance.

Earnings and Occupational Status

The foregoing discussion made no reference to the earnings of different immigrant classes. Samuel and Woloski [1984] did study the insurable earnings – i.e., the maximum amount for which earnings are insured for unemployment insurance purposes – of immigrant classes for the period 1980-82 (Table 7-10). In all three years, independents were the top income-earners, with over 40 per cent of them earning in excess of \$15,000 (1981 dollars). Next came the assisted relatives, of whom nearly one third were in that income bracket. Family-class immigrants and refugees were at the bottom of the list.

Table 7-10
Insurable Earnings of Immigrants, by Category and by Level of Earnings,¹ Canada, 1980-82

	1980				1981				1982				Average earnings (Dollars)			
					A	B	C	D	Total	A	B	C	D			
	A	B	C	D	Total	A	B	C	D	Total	A	B	C			
Immigrant category																
Family class	34.0	30.6	25.2	10.2	100.0	25.5	30.4	30.1	14.0	100.0	29.9	28.5	29.7	11.9	100.0	1,258
Refugees and designated classes	35.9	35.4	23.9	4.7	100.0	18.4	32.1	34.4	15.1	100.0	28.7	26.9	30.7	13.8	100.0	1,249
Assisted relatives	23.0	27.0	20.9	29.1	100.0	11.5	21.3	36.5	30.7	100.0	15.9	19.6	35.5	29.1	100.0	296
Independents	20.2	16.5	21.3	42.1	100.0	13.4	16.2	21.0	49.4	100.0	17.0	17.2	19.5	46.3	100.0	851
Average	30.5	28.7	23.5	17.1	100.0	19.1	26.9	30.0	23.9	100.0	25.3	24.6	28.1	21.9	100.0	3,654

1. Levels of earnings in 1981 constant dollars: A = less than \$5,089; B = from \$5,089 to \$10,000; C = from \$10,000 to \$15,000; D = \$15,000 and over.

SOURCE: Samuel and Woloski [1984, p. 18].

Given the evidence that independents seem to earn more than the other classes, it might be argued that those who go through the point system do better than those who do not. But they may or may not do better than comparably qualified native-born Canadians, which is the key point at issue. Unfortunately, this is an area that has not been investigated because of data problems – one that would therefore be a good candidate for future research.

According to the 1986 census data, the proportion of immigrants employed in managerial and professional jobs is slightly higher than the corresponding proportion among their Canadian-born counterparts (Table 7-11). It is not clear, however, whether this is related to differences in age distribution between immigrants and the native-born. There are also more male immigrants than native-born Canadians working in service, processing, and fabricating occupations.

When one looks at the occupational distribution of immigrants who arrived more recently – i.e., during the period 1978-86 – some of these conclusions no longer hold. First, recent immigrants occupy many fewer managerial jobs than do the Canadian-born. Second, the proportion of recent immigrants working in the service and fabricating jobs is much higher than before, relative to the native-born. Similar findings apply to female immigrants as well. The fact that most of the recent immigrants have taken jobs in serv-

ice occupations industries rather than managerial jobs does not necessarily mean that their performance is inferior to that of earlier immigrants or of their Canadian-born counterparts. One must delve deeper into this issue to find out what effect the occupational distribution has had on the relative earnings of immigrants.

An important aspect of the occupational structure, not previously discussed, is the extent of self-employment among immigrants relative to the Canadian-born population. If immigrants go into self-employment to a larger extent than do the native-born, they may provide employment opportunities for either other immigrants or native-born Canadians, or both. This apparently was the rationale behind the Entrepreneurial Immigration Program, started in 1978 and later expanded (as the Business Immigration Program) to encourage not only entrepreneurs but also the self-employed and investors to come to Canada. Some of the businesses created by the program, however, may have been at the expense of Canadian-owned businesses. Hence it is not enough to simply count the number of businesses opened by immigrant entrepreneurs and praise the program. To be termed successful, the program must create employment that would not be forthcoming otherwise. Unfortunately, we cannot even make a rough estimate of this "increment," since neither the number of jobs created by the program nor the proportion of these jobs that is incremental are

Table 7-11

Occupational Distribution of Male and Female Immigrants, by Period of Immigration, and Native-Born Canadians, 1986

	Men				Women			
	Immigrants	Period of immigration		Canadian-born	Immigrants	Period of immigration		Canadian-born
		1978-82	1983-86			1978-82	1983-86	
(Per cent)								
Managerial	13.5	9.0	8.3	12.4	7.5	4.7	3.7	7.8
Professional	16.1	15.8	13.9	12.4	18.9	16.2	13.5	21.3
Clerical	5.9	6.4	6.4	7.0	28.2	23.3	18.9	34.7
Sales	7.4	6.2	6.4	9.1	8.5	6.7	6.9	9.6
Service	11.6	17.1	18.4	9.9	17.5	22.5	27.4	15.8
Primary	3.9	3.5	3.9	8.8	2.2	2.8	3.1	2.6
Processing	10.0	12.1	11.3	7.8	3.1	4.0	4.0	2.2
Fabricating	12.4	14.9	15.5	9.4	10.1	14.9	16.9	2.9
Construction	10.0	6.0	6.4	10.1	0.3	0.3	0.3	0.3
Other	9.2	9.0	9.5	13.1	3.7	4.6	5.3	2.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

SOURCE Statistics Canada [1989, pp. 1-9 to 1-12].

known. The data available refer to the employment intentions of foreign entrepreneurs rather than to the *actual* employment generated. However, a consultants' report based on a survey of the activities of foreign entrepreneurs found that the Entrepreneurial Immigration Program led to the creation of very few jobs during the period 1978-84 [Wong et al. 1985].

Some information on self-employment is available, however. In 1981, 7.9 per cent of immigrants were self-employed, compared with 6.8 per cent of the Canadian-born population. The corresponding figures for 1986 were 11.6 and 9.0 per cent, respectively. Thus the proportion of immigrants in self-employment has increased faster than that of the native-born. Not all immigrants, however, are self-employed to the same extent. In 1981, the extent of self-employment among male immigrants ranged from a low of 2.3 per cent among the Filipino community to a high of 18.7 per cent among the Dutch group. Similar variations could be observed among female immigrants [Tepper 1988]. In 1981, the sector with the largest proportion of self-employed immigrants was that of community, business, and personal services (37.5 per cent), followed by trade (19.4 per cent) and agriculture (14.9 per cent). By contrast, among self-employed native-born persons, the most popular sector was agriculture (31.5 per cent); next in importance were community, business, and personal services (24.8 per cent), and trade (16.4 per cent). Although the relative importance of the sectors differed somewhat, the important point is that the overall differences in the degree of self-employment between immigrants and the Canadian-born are very small and might well vanish altogether when corrected for differences in the age distributions.

Another issue that is related to the occupational distribution is the public perception that refugees end up taking dead-end jobs. Such jobs may be exploitative, badly paid, and injurious to health. Persons occupying these jobs may also be vulnerable to layoffs, in which case their dependence on the welfare system would be greater than that of other immigrants. Unfortunately, major data limitations hinder any extensive discussion of this aspect at present, although there is some evidence available on regular (i.e., non-refugee) immigrants.² As seen earlier, for example, no published data are available on the occupational distribution of immigrants by class or by place of birth. Even if that information were available, it would not be enough to shed light on whether refugees take dead-end jobs or not, since the occupational breakdown is too broad.

Dependence on Welfare and Other Indicators

An extremely important aspect of the economic performance of immigrants is the extent of their dependence

on welfare assistance, compared with that of the native-born. A commonly held view is that many of the recent immigrants are unable to find jobs because of their low educational levels or language problems and that they end up depending on welfare assistance as a result. If this is true, it is a serious matter because it indicates major adjustment problems. The data available (from the 1986 census) deal with welfare assistance from both federal and provincial sources. They show that 12.5 per cent of the immigrants who came during the period 1981-86 received government welfare assistance, compared with 6.7 per cent of immigrants who came during the period 1976-80 and 13.8 per cent of native-born Canadians. Thus, contrary to popular belief, the proportion of welfare recipients among recent immigrants is quite small and not significantly different from that of the Canadian-born population.

The number of hours that immigrants work and the number of jobs they do are also important indicators of their economic performance. If immigrants are not doing well compared with native-born persons or if they are more ambitious than them, one would expect them to put in longer hours and/or "moonlight" to a greater extent than their Canadian-born counterparts. While the census does not contain any information on multiple job-holding, it does deal with hours of work. The data for 1986 show that immigrants and the native-born worked roughly the same number of hours – 39.85 and 39.57 hours per week, respectively. Strictly speaking, however, one should look at hours of work by both period of arrival and immigrant class, since the general impression is that it is the refugees who put in longer hours and/or moonlight more than any other immigrant group. Unfortunately, the census data are not disaggregated in this way. A few case studies [Neuwirth 1989, for example] do address the issue with respect to refugees, but they do not present a control group to serve as the basis for comparison; in addition, the sample size is usually extremely small.

The emigration of immigrants from Canada is also a matter of interest in this context. Some immigrants who are not successful in the host country may be tempted to return to their home country or to move on to a third country. There are many reasons for leaving, however. For example, some immigrants may stay in Canada only until they have earned enough money to return to their home country and lead a comfortable life there. Still others may use Canada as a stepping stone to the United States. Thus the decision to leave Canada does not necessarily indicate economic failure on the part of the immigrant. According to census data, the number of foreign-born emigrants from Canada has declined since the late 1960s. Whereas the retention rate of the 1966-70 immigrant cohort was 69 per cent, that figure

rose steadily for later cohorts, reaching 85 per cent of the 1981-85 cohort (Beaujot and Rappak 1988). These rates enable us to determine what proportion of recent arrivals have moved out of Canada. Our conclusion is that they regard Canada as a better place to live than many of the other places they could move to.

Summing up, while the discussion so far brings out some interesting points, it is incomplete because it really does not shed enough light on the issue of whether immigrants do better or worse than comparably qualified Canadian-born persons. That is a key issue, relevant to whether immigrants not only do well but do as well as they ought to or have a right to expect. We need to find out, for example, whether immigrants with the same levels of education and experience as the native-born receive similar earnings; whether it makes a difference, with respect to immigrant earnings, if some of the education and experience was acquired abroad rather than in Canada; and whether there is any significant discrimination against immigrants in general or against specific immigrant groups. To answer these questions, we need to make a much more detailed and rigorous analysis of the earnings of immigrants and their Canadian-born counterparts.

Income Differentials

Probably the most important aspect of the economic performance of immigrants is whether they are able to find work and wages fitted to their qualifications. If immigrants are unable to find jobs for which they have been trained or if, after finding suitable employment, they receive wages below the level paid to Canadian-born persons with similar qualifications, there will be resentment and social friction.

To test how well immigrants do, relative to comparably qualified native-born, we looked in great detail at both immigrant and native-born earnings for the year 1986, using census data. Essentially, the method employed was regression analysis, which involves trying to explain the earnings of immigrants and native-born Canadians in terms of various factors, such as education, experience (Canadian and foreign), language, gender, occupation, province, urban/rural mix, public/private-sector employment, hours of work, and country of origin. The analysis makes it possible to estimate the impact of a specific factor on earnings, to test whether it is statistically significant, and to see whether it affects immigrants and the native-born in the same way.

Educational Level, Experience, and Language Proficiency

For example, one reason why immigrants cannot find work and wages compatible with their qualifications may

be that their academic and employment qualifications are not recognized in this country [McDade 1988]. That lack of recognition may stem from a number of considerations, including difficulties in evaluating foreign credentials, and perceived and real differences in quality between Canadian and foreign qualifications. The difficulties experienced by immigrants in this respect may vary from one group to another. NIOs in general are likely to experience more difficulty than TIOs in getting their qualifications approved. It is also conceivable that prospective employers may use the reasons given earlier for not recognizing foreign qualifications as an excuse to discriminate against foreign job applicants. While all of these possibilities could show up in the regression analysis, the latter does have its limitations. It cannot distinguish, for example, between genuinely poor qualifications of immigrants and bias against genuinely good qualifications possessed by immigrants.

Do immigrants experience difficulty in the Canadian job market as a result of lack of proficiency in Canada's official languages? One would expect immigrants who are fluent in English to have less difficulty in earning salaries commensurate with their other qualifications than those who speak only French and those who are unable to speak either of those two languages. If this is so, it would show up in the analysis.

Discrimination

The most important purpose for using regression analysis is to test the view that, because of discrimination, immigrants may not fare as well as the native-born in the labour market. Discrimination could take several forms. One is wage discrimination, which involves paying immigrants and the native-born different wages for a similar type of work. Another is occupational discrimination, in which qualified persons are not allowed to enter certain occupations. Both forms of discrimination may affect either all immigrants or specific immigrant groups. In this report, however, we deal with only wage discrimination, since census data are readily available to test for it. The occupational categories provided in the census are too broad to permit an analysis of occupational discrimination.

Since wage discrimination may turn out to be a key aspect of the economic performance of immigrants, it is important to describe in greater detail the methodology used to test for it empirically. It can be described as follows. A wage differential between immigrants and native-born Canadians at any moment in time could be explained by differences in endowments, such as education and experience, between the two groups and by discrimination. To

isolate the contribution of discrimination to the wage differential, it is important to first "standardize" for the differences in endowments. This can be done by using a statistical procedure that involves attributing to immigrants the endowments of the native-born. If there remains a wage differential between the two groups after that exercise is carried out, that residual difference is attributed to discrimination.

That method is a standard approach – one that has been widely used in the economic literature. Nevertheless, it could be criticized on the grounds that every difference that cannot be explained by endowments is treated as if it were attributable to discrimination, even though that explanation might be incorrect or too sweeping. To minimize this problem, it is crucial that as many as possible of the factors relevant to wage determination be considered and be measured correctly. Although we tried to be as thorough as possible (see the list of the factors considered in Table 7-12), some factors – networking, motivation, luck, and so on – could not be incorporated into the analysis because of data and measurement problems.

An important factor not listed in Table 7-12 is the quality of education and experience. To measure this factor, the Council devised a new methodological approach, described below.

Two immigrant samples – A and B – were created. Group A consisted of immigrants who received their entire education and some of their experience abroad before coming to Canada, whereas Group B consisted of immigrants who had all of their education and all of their experience in Canada. Corresponding to these two groups, two native-born control samples – Groups NA and NB – were also created. The control groups were chosen to have the same average age, as near as possible, as the corresponding immigrant groups, so that the two groups in each "pair" would also have approximately the same levels of education and experience. Since immigrants in Group A did not have all of their education and experience in Canada, however, the quality of their education and experience may not be similar, or may not be perceived to be similar, to that of the Canadian-born in Group NA. The same should not apply to immigrants in Group B, since by definition they acquired their education and experience in Canada, just like the native-born in Group NB. Consequently, a comparison of the results using Groups A and B and their control groups enables us to isolate the effect on earnings of differences in the quality of education and experience, whether these differences are real or perceived by employers.

Before presenting the statistical results, it is important to take a look at the means of the factors used in the analysis.

With respect to age, immigrants in Group A turned out to be slightly younger than their native-born counterparts in Group NA, whereas Groups B and NB were similar. In terms of education, both foreign- and Canadian-educated immigrants were almost on a par with their native-born counterparts. The same was also true for total experience. But when it comes to Canadian experience, immigrants in Group A were at a definite disadvantage, compared with the native-born in Group NA, whereas Groups B and NB were about the same.

Thus – other things being equal – if foreign education and experience are worth less or are perceived to be worth less, the native-born in Group NA should earn more than immigrants in Group A, whereas there should be no substantial difference between Groups B and NB. Table 7-12 shows that expectation regarding Groups A and NA is supported by the raw income data. But the table also shows that Canadian-educated immigrants in Group B earned less than their native-born counterparts in Group NB, which runs counter to expectations. The explanation for the lower earnings of Canadian-educated immigrants must be either that they have less of the other endowments, relative to the native-born in Group NB, and/or that there is discrimination. The regression analysis can settle this point.

Table 7-13 presents some of the key findings of the regression analysis regarding education, experience, gender, linguistic ability and, most important for our purposes, whether there is discrimination on the basis of colour.

Education

An extra year of education increases average weekly earnings of foreign-educated immigrants by 2.4 per cent, compared with 4.6 per cent for their native-born counterparts. The difference is statistically significant and consistent with the findings of previous studies.³ But an additional year of education raises the earnings of Canadian-educated immigrants and the native-born in Group NB by 5.6 and 5.9 per cent, respectively. These findings lend support to the argument that Canadian education has a greater effect on immigrant earnings than foreign education.

Experience

The results also show that an additional year of Canadian experience raises the earnings of foreign-educated immigrants by 3 per cent, whereas foreign experience has no significant impact. Similar findings have also been reported in several previous studies.⁴ However, in the case of

Table 7-12**Testing for Wage Discrimination against Immigrants in Canada (1986):****Factors Used in the Regression Analysis and Their Means¹**

	Native-born, Group NA	Immigrants, Group A	Native-born, Group NB	Immigrants, Group B
Selected characteristics				
Age (years)	48.84	45.02	30.44	30.89
Average weekly earnings (dollars)	453.00	400.00	402.00	364.00
Average number of weeks per year	47.74	46.78	46.05	45.05
Average number of hours per week	39.46	40.06	39.72	38.86
Education (years)	11.33	11.45	12.46	12.94
Experience (years)	32.51	28.57	12.98	12.95
Residence in Canada (years)	...	18.22	...	28.61
(Percentage of the labour force)				
English proficiency	64.7	81.4	64.2	79.4
French proficiency	13.8	3.4	14.8	0.7
Proficiency in both English and French	21.5	10.7	21.0	19.8
Allophones	—	4.6	—	0.1
Urban living	45.9	80.4	46.2	71.1
Married persons	92.4	93.1	89.8	71.7
Living in British Columbia	10.1	13.5	9.4	13.2
Living in Ontario	35.4	58.4	34.5	58.1
Living in Quebec	27.8	12.8	28.3	10.9
Living in the Prairie region	16.9	13.7	18.4	14.4
Living in the Atlantic region	9.6	1.5	9.4	3.1
Females	37.6	40.4	41.2	44.6
Degree holders	10.2	12.1	13.7	16.7
Government employees	10.0	4.4	9.7	7.5
Occupations				
Managerial	13.6	8.3	9.8	10.6
Natural sciences	3.2	4.9	5.1	5.4
Social sciences	1.5	1.0	2.1	2.5
Teaching	6.3	3.4	4.4	6.4
Medicine	4.5	4.8	6.0	4.3
Art	0.8	1.0	1.4	1.5
Clerical	17.3	12.7	19.6	22.8
Sales	10.8	7.4	9.4	10.8
Services	9.7	13.8	8.5	9.3
Farming	1.6	1.4	1.7	1.6
Primary	1.4	0.4	1.5	0.5
Processing	3.3	4.8	3.7	2.7
Machining	8.8	19.7	10.2	7.9
Construction	5.8	6.9	5.9	4.9
Transportation	4.9	1.9	4.4	2.8
Other	6.5	7.5	6.3	5.9
Place of birth				
United States	...	4.1	...	7.4
Western Europe	...	12.5	...	25.7
Northern Europe	...	18.5	...	30.8
Southern Europe	...	22.8	...	23.2
Eastern Europe	...	6.9	...	3.0
East Asia	...	6.4	...	1.6
Southeast Asia	...	6.5	...	0.3
South Asia	...	5.3	...	0.9

Table 7-12 (concl'd.)

	Native-born, Group NA	Immigrants, Group A	Native-born, Group NB	Immigrants, Group B
(Percentage of the labour force)				
West Asia	...	1.6	...	0.8
Northern Africa	...	1.1	...	0.5
Southern Africa	...	0.5	...	0.3
Other Africa	...	1.8	...	0.4
South and Central America	...	4.0	...	1.8
Caribbean	...	6.5	...	1.8

1 The groupings used in the test were: A = immigrants with foreign education and experience; B = immigrants with Canadian education and experience; NA and NB = control groups of native-born Canadians with socioeconomic characteristics similar to those of the corresponding groups of immigrants A and B.

SOURCE Based on 1986 census data from Statistics Canada.

Table 7-13

Testing for Wage Discrimination against Immigrants in Canada (1986):
Some Findings of the Regression Analysis¹

	Native-born, Group NA	Immigrants, Group A	Native-born, Group NB	Immigrants, Group B
(Per cent)				
Impact on earnings of:				
1 An additional year of education	4.6	2.4	5.9	5.6
2 An additional year of Canadian experience	1.4	3.0	7.9	7.2
3 An additional year of foreign experience	...	*	...	...
4 Earnings of women (relative to men)	-57.6	-48.4	-38.5	-34.6
5 English proficiency (relative to French proficiency)	*	*	*	*
6 Proficiency in both English and French (relative to French proficiency)	2.7	*	3.9	*
7 Allophones (relative to French proficiency)	...	*	...	...
8 Earnings ² of				
West Asians	...	-19.5	...	*
East Asians	...	-8.5	...	-20.8
Southeast Asians	...	-10.6	...	*
South Asians	...	-8.3	...	*
Africans ³	...	-9.9	...	*
South and Central Americans	...	-16.7	...	*
West Indians	...	-11.3	...	-26.9
Southern Europeans	...	-5.3	...	*
Eastern Europeans	...	*	...	*

*Not statistically significant.

1 The groupings used in the test were: A = immigrants with foreign education and experience; B = immigrants with Canadian education and experience; NA and NB = control groups of native-born Canadians with socioeconomic characteristics similar to those of the corresponding groups of immigrants A and B.

2 As a proportion of those immigrants from Western and Northern Europe, the United Kingdom, and the United States.

3 Excluding Northern (mainly Egypt, Algeria, Morocco, and Tunisia) and Southern Africa (mainly the Republic of South Africa and Botswana).

SOURCE Estimates by the Economic Council.

Canadian-educated immigrants, the impact of an extra year of Canadian experience is roughly the same as in the case of the native-born in Group NB (7.2 and 7.9 per cent, respectively). These results lead us to conclude that what matters for immigrant earnings is experience acquired in Canada, not experience acquired abroad.

Linguistic Ability

For both samples – i.e., foreign- and Canadian-educated immigrants – the language variable has no significant impact on earnings. Proficiency in both French and English has a significant impact only on the earnings of native-born Canadians. Thus the results of the regression analysis do not provide strong support for the popular view that language proficiency is of critical importance to the analysis of immigrant earnings.

Gender

Gender discrimination is significant with respect to both immigrants and the native-born. Among foreign-educated immigrants, women earned about 48 per cent less than men; the figure for women in Group NA was 57 per cent. The corresponding figures for women in Groups B and NB were 35 and 39 per cent, respectively. Thus gender discrimination is greater among the Canadian-born than among immigrants, particularly in the case of Group NA. Our estimates of gender discrimination are higher than those reported in some earlier studies [Shapiro and Stelcner 1981], although their results are not directly comparable with ours since these studies did not make a distinction between immigrants and the native-born.

The Question of Discrimination

Item 8 in Table 7-13 presents the key results on the question of discrimination. It shows how NIO groups fare relative to TIO groups, and it does this separately for Group A and Group B immigrants. To understand the results in item 8, consider two examples. First, the figure of -8.5 for East Asians, Group A, means that those East Asians who received some or all of their education and experience outside Canada earned 8.5 per cent less than did TIO immigrants with comparable "endowments" in all other respects (age, occupation, gender, and so on). Second, the asterisk for South Asians in the second column in item 8 means that South Asians who received all of their education and work experience in Canada (Group B) earned the same as TIO immigrants with comparable endowments.

The most important results are those in the Group B column. They show that there was no systematic discrimina-

tion against NIO groups in earnings. In particular, four groups with high proportions of visible minorities – West Asians, Southeast Asians, South Asians, and Africans – earn the same as equally qualified immigrants from Western and Northern Europe, the United Kingdom, and the United States in situations where the members of both groups had received all their education and experience in Canada. These results are not consistent with systematic discrimination based on colour. This conclusion holds even though there are two groups with high proportions of visible minorities that do earn less than comparably qualified TIO immigrants – East Asians and West Indians – precisely because there are four groups of whom this is not true. Why these two groups are different remains a mystery.

What, then, are we to make of the Group A results for item 8 of Table 7-13? These show unambiguously that among immigrants who did not receive all of their education and experience in Canada, Asians, Africans, and West Indians earned less than Europeans and North Americans, even after full correction for endowment differences. On the surface, this contradicts the conclusion that there is "no systematic discrimination," based on the analysis of Group B immigrants.

It seems difficult to maintain, however, that colour matters if you are not educated in Canada but does not matter if you are: education does not remove pigmentation. We consider, therefore, that two alternative explanations of the Group A results are more plausible. One is that the spoken accent of immigrants matters, and matters more for NIO immigrants from outside Europe and North America than for immigrants from Southern and Eastern Europe. Group A immigrants often have noticeable accents, while Group B immigrants do not. That interpretation fits well with results reported in Chapter 9 regarding the importance of accent discrimination in the telephone portion of field tests conducted in Toronto. The other interpretation is that foreign education is not only valued less than Canadian (see item 1 of Table 7-13), but that it is valued even less if it is obtained in Asia, Africa, or the Caribbean than if it is obtained in Europe or the United States. We suspect that the truth lies in a combination of these explanations.

Thus we conclude that the evidence goes against the view that there is systematic earnings discrimination against immigrants on the basis of colour. That said, Asians, Africans, and West Indians who have not been completely educated in Canada do earn less than other immigrants who are otherwise comparable, both in endowments and in not having been completely educated in Canada either. The reason is likely a combination of prejudice against accent and relatively greater undervaluation of the non-Canadian education they have received. There is no way to tell, inci-

dentially, whether that undervaluation represents prejudice against foreign educational credentials, ignorance of the true value of foreign credentials, or a genuinely lower usefulness of non-Canadian credentials in the Canadian labour market.

Table 7-13 is relevant to the question of possible discrimination between one type of immigrant and another, notably visible minorities. It does not tell us directly, however, whether there is any discrimination against immigrants in general, including TIO groups. In a separate exercise, to be reported on in detail in a forthcoming research study, we also attempted to quantify the extent of discrimination against immigrants in general. In 1986, those in Group A earned 13.9 per cent less than their Canadian-born counterparts in Group NA (Table 7-14). This earnings differential can be explained by the following factors. Differences in endowments (education, experience, gender, urban/rural mix, and province) between the two groups account for 6.3 percentage points, while the remaining 7.6 points fall under the label "discrimination." Immigrants in Group B earned close to 10 per cent less than the Canadian-born in Group NB. Endowment differences explain all of this differential, which means that there is no discrimination against Group B immigrants. Since Group B controls better for differences in the quality of education and experience between immigrants and the native-born, we conclude that there is no discrimination to speak of against immigrants in general, or against coloured immigrants in particular. However, there may be "discrimination" against foreign academic credentials and experience.

Table 7-14

Factors Contributing to the Earnings Differential between Immigrants and Native-Born Canadians,¹ Canada, 1986

	Groups NA/A	Groups NB/B
(Per cent)		
Earnings differential	13.9	9.8
Endowments	6.3	10.3
Discrimination	7.6	-0.5

1 The groupings used in the test were: A = immigrants with foreign education and experience; B = immigrants with Canadian education and experience; NA and NB = control groups of native-born Canadians with socioeconomic characteristics similar to those of the corresponding groups of immigrants A and B.

SOURCE Based on 1986 census data from Statistics Canada.

Summary and Conclusions

How well do immigrants perform in the Canadian labour market, relative to comparably qualified Canadian-born persons? In broad terms, the answer is that they perform just as well.

Since 1970, there has been a major change in the composition of the immigrant population in favour of new immigrant groups from Asia, Africa, South and Central America, and the Caribbean and away from traditional immigrant groups mainly from Europe and the United States. Many of the former have come as family-class immigrants and refugees, while many of the latter came here as independents. And while there has been a slight increase in the proportion of less-educated persons in recent years, immigrants from Third World countries still comprise a higher proportion of university-educated persons than does the Canadian-born population.

A preliminary examination of some economic indicators shows that the labour force participation rate, adjusted for age differences, is slightly higher for both male and female immigrants than for their Canadian-born counterparts. Indeed, their participation rates tend to increase with the duration of their residence in Canada. The evidence also shows that immigrants experience relatively short periods of unemployment and that this is broadly similar to the experience of the native-born. Although there are some differences among immigrant classes, they are relatively minor. Contrary to popular thinking, the proportion of recent immigrants on welfare assistance is extremely small and tends to be similar to that of the native-born.

As for the factors that influence the wage gap between immigrants and their Canadian-born counterparts, the main conclusion of our regression analysis is that, after endowment differences between immigrants and the native-born have been standardized, there is no significant discrimination against immigrants in general or coloured immigrants in particular. Two specific immigrant groups, however, have not done well relative to the native-born and other immigrants. These are the immigrants from East Asia and the Caribbean.

There is only one area where we have found evidence of considerable discrimination: women are consistently discriminated against, irrespective of whether they are immigrants or Canadian-born. This shows that our methodology can demonstrate the existence of discrimination if it is indeed there.

8 Refugees

Canada has a long history of providing a haven for refugees, and it is a tradition upon which Canadians look with pride. However, the sudden increase, over the past few years, in the number of people seeking refugee status in Canada after arriving here has sparked concern among federal and provincial officials, as well as among Canadians in general. The refugee phenomenon has changed considerably in recent years, and it now poses some serious policy problems. Other OECD countries are experiencing similar problems. The number of people seeking asylum in Europe and North America has risen from 25,000 in 1973 to an estimated 550,000 in 1990 [Widgren 1990, p. 3].

The Council has not undertaken new work on the refugee question but has reviewed issues that are pertinent to the general topic of immigration that is the focus of this report. These include the recent changes in the criteria for admitting and selecting refugee-immigrants, the difficulty of managing the flow of refugee claimants, and the possibility that this flow may have negative effects on the management of immigration in general.

Since the Second World War, Canada has admitted roughly 500,000 refugees – close to 250,000 during the past 15 years alone. In that respect, it is second only to the United States among the Western industrialized countries [Employment and Immigration Canada 1990a, pp. 3-4]. Canada has also played an active role in developing several international agreements pertaining to refugees, notably the 1951 Convention Relating to the Status of Refugees (known as the Geneva Convention) – which laid down the principles that individual countries should follow in responding to the needs of refugees from postwar Europe – and, later on, the 1967 Protocol, which broadened that definition to include all refugees [Nash 1989, p. 6].

Canada's commitment to assisting refugees is explicitly recognized in the current Immigration Act (An Act Respecting Immigration to Canada, 1976-77 [R.S.C. 1985]), one of whose stated objectives is "to fulfill Canada's international legal obligations with respect to refugees and to uphold its humanitarian tradition with respect to the displaced and the persecuted" [Part 1, 3(g)]. This objective is achieved in two quite different ways: 1) by selecting refugees abroad; and 2) by determining the validity of the claim to refugee status made by legal or illegal visitors af-

ter they arrive in Canada. The two processes have quite different implications for the management and costs of Canadian immigration policy, as we shall see later.

Contrary to popular thinking, refugees have traditionally represented only a small proportion of the immigrants admitted to Canada. But that proportion is rising. In 1981, refugees accounted for 12 per cent of all immigrants entering the country. By 1989, that proportion had increased to 18 per cent – still well below the 30 per cent of family-class immigrants and the 52 per cent of independents.

Refugees Selected Abroad

Until very recently, the overwhelming majority of refugees given permanent residence in Canada were selected abroad – many of them in refugee camps – either by the federal government or by private sponsors. The rest were claimants applying successfully for refugee status from within Canada. Refugees selected abroad fall into one of two categories:

1 Convention refugees (i.e., refugees as defined by the 1951 Convention and the 1967 Protocol) are persons who are outside their country of origin and who – because of a well-founded fear of persecution on account of their race, religion, nationality, political opinion, or membership in a particular social group – are unable or unwilling to return to their country of origin and are in need of resettlement.

2 Designated classes include persons who are in circumstances similar to those of Convention refugees and who are in need of resettlement, although they do not satisfy the strict definition of a Convention refugee. Currently, there are two designated classes: 1) persons from Indochina; and 2) political dissenters and oppressed persons from El Salvador and Guatemala. Until recently, there was a third designated class, comprising self-exiled persons from Eastern Europe (except Yugoslavia) and the Soviet Union [Employment and Immigration Canada 1990b, p. 34], but this was phased out in October 1990.

There is an additional informal category, consisting of individuals in need of relief who do not meet other eligibility

criteria but who may be accepted in Canada on humanitarian and compassionate grounds. Most people in this category have close relatives here and come from countries experiencing social upheaval, such as civil war or revolution. Special humanitarian measures are in effect for citizens of El Salvador, Guatemala, Lebanon, Iran, and Sri Lanka. Although their circumstances may be similar to those of refugees, they are processed as independent immigrants.

Refugees do not enter Canada under the point system described in Chapter 2, which is used to screen independent applicants for landed-immigrant status. However, their skills and their ability to adapt to the Canadian economic and social environment are generally taken into account. But in situations where there are strong humanitarian concerns, these considerations may be waived [Employment and Immigration Canada 1990a, p. 17].

Traditionally, most of the refugees admitted to Canada have been members of designated classes. But the proportion of Convention refugees has been growing over the last 10 years, and this latter category may overtake the former.

Refugees may have either a private or a government sponsor. Canadians who undertake to sponsor a refugee or a refugee family are required to provide resettlement assistance for a period of one year. This assistance consists of the provision of food, clothing, and shelter, as well as attending to the emotional needs of refugees. The services provided by the federal government include interest-free transportation loans, temporary medical assistance, employment services, language and occupational training, family allowances, and other social assistance. Many of these services are provided to both private- and government-sponsored refugees.

In 1989 and 1990, private sponsorships accounted for over 50 per cent of the total, but over the last 10 years the government sponsored more than half of all refugees. While private sponsorships reduce the costs incurred by the various levels of government with respect to refugees, these costs are high, as we shall see later.

The majority of refugees have traditionally come from Eastern Europe, followed in more recent times by those from Southeast Asia. In 1989, those two regions together accounted for about 70 per cent of all refugees; the Middle East and Latin America accounted for about 11 per cent each; and the remaining 8 per cent came from Africa and other regions (Table 8-1).

Refugee Claimants

No selection criteria are applied to persons who land in Canada and who present evidence that they are genuine refugees. If they satisfy health and security requirements, they are automatically given permanent residence. As a signatory to the 1951 Geneva Convention and to the 1967 Protocol, Canada has an obligation to protect such refugees against involuntary return to the countries in which they fear persecution. Accordingly, the 1976 Immigration Act set up an inland refugee-determination system for processing claims submitted after arrival in Canada.

Until recently, the flow of claimants was very small in relation to both the number of refugees selected abroad and the figure for total immigration. About 154,000 refugee claims were received between 1979 and 1990 (Chart 8-1). An overwhelming proportion of that number, however, is accounted for by claims received since 1986, and there are reasons to believe that the number of such claims may grow even faster in coming years.

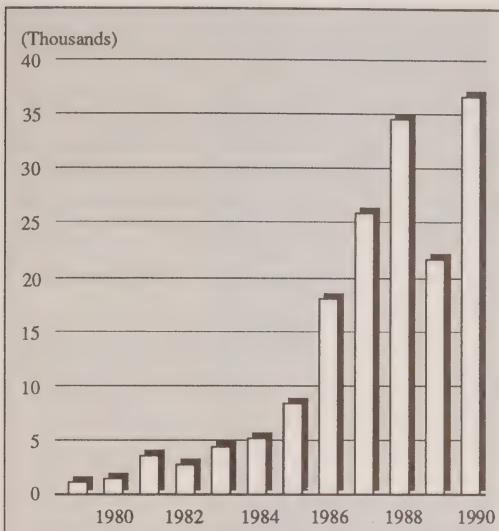
The rejection rate of claimants was about 70 to 80 per cent during the 1980s [Nash 1989, p. 53]. Moreover, given the limited resources devoted to treating claims, only a very small proportion were processed each year. The resulting backlog explains why only a small number of claimants were recognized as Convention refugees (Table 8-2). The backlog of unprocessed claims led the government in 1986 to undertake an administrative review, under which individuals who were able to demonstrate their ability to establish themselves successfully in Canada, who had close family members here, or who were in situations similar to those of refugees, were given landed-immigrant status. About 27,300 people qualified under the review, which is often referred to as an amnesty although it did not open the door to all backlogged claimants.

Table 8-1

Refugee Arrivals, by Country of Origin, Canada, 1987-89

	1987	1988	1989
	(Per cent)		
Eastern Europe	34.8	38.1	45.3
Southeast Asia	30.2	27.4	25.7
Middle East	7.6	12.6	10.5
Latin America	20.0	13.7	10.6
Africa	6.6	7.5	7.6
Other	0.8	0.7	0.3
Total	100.0	100.0	100.0

SOURCE Employment and Immigration Canada [1990a].

Chart 8-1**Refugee Claims Received, Canada, 1979-90**

SOURCE Data from Employment and Immigration Canada.

Some observers believe that the administrative review encouraged new refugee claimants to make their way to Canada [Nash 1989, p. 52]. Whatever the cause, the surge of new arrivals from 1986 to 1988 created an even larger backlog of unprocessed claims. By the end of 1988, there

were about 85,000 claimants waiting for their cases to be heard [Immigration and Refugee Board 1990, p. 10]. Ironically, this backlog may partly explain the escalating number of people arriving in Canada to claim refugee status. Visitors who are not genuine refugees may have applied for refugee status because they "could remain in Canada as long as five years until their cases were resolved" [Immigration and Refugee Board 1988, p. 3].

In 1986, the government had also set up a task force to study the refugee situation. Following the release of its report, the government introduced a new system of refugee determination on 1 January 1989.

New System of Refugee Determination

Under the new system, the refugee-determination and immigration-appeal processes are combined in a new agency – the Immigration and Refugee Board (IRB) – which is independent of Employment and Immigration Canada and is directly answerable to Parliament. The IRB is also expected to assist Employment and Immigration Canada in the clearing of the backlog of refugee claims made prior to its formation [Immigration and Refugee Board 1990, p. 10].

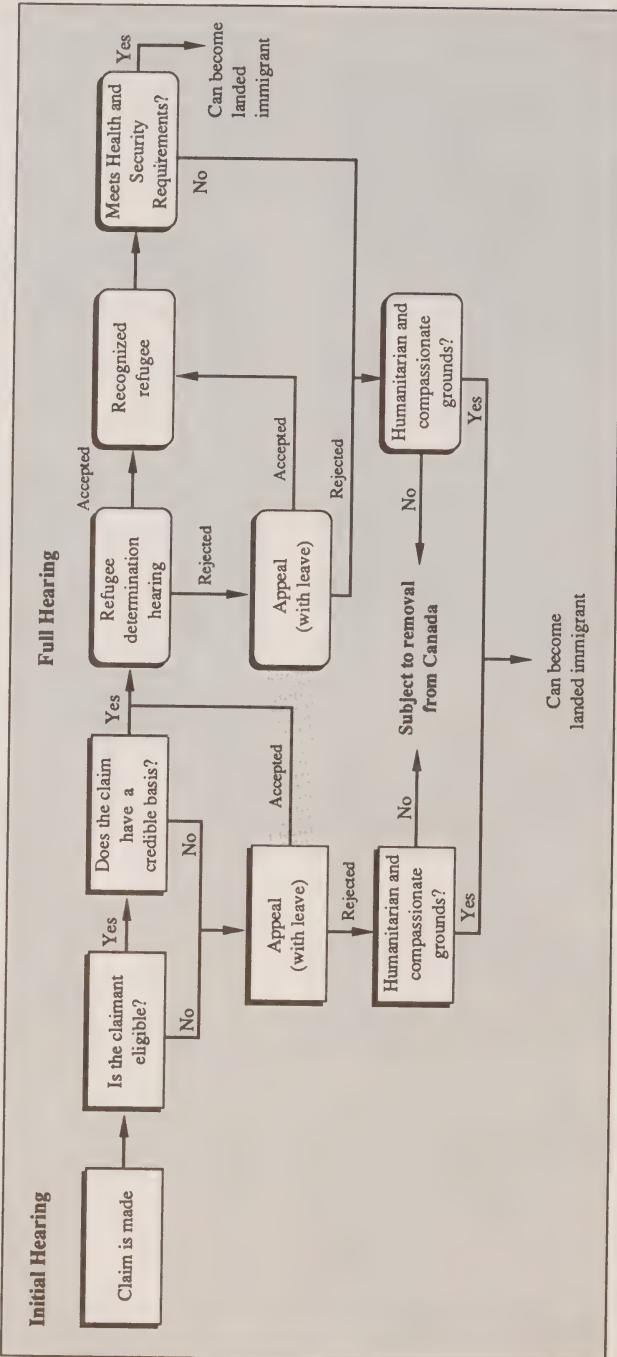
The new system introduced two stages into the process of refugee determination (Figure 8-1). The first consists of an initial hearing to determine whether the claimant is eligible for consideration as a Convention refugee and, if so, whether his/her claim has a credible basis. Persons are considered to be ineligible if they already have the status of refugee in another country, if they have arrived from a

Table 8-2**Refugee Claims Received and Processed, Canada, 1979-88**

	Received	Completed	Accepted		Backlog
			Number	Proportion (Per cent)	
1979	1,165	1,085	362	33.4	213
1980	1,505	1,003	263	26.2	619
1981-82	3,582	2,020	453	23.0	2,096
1982-83	2,807	3,148	609	20.0	1,479
1983-84	4,283	2,648	1,084	39.7	2,673
1984-85	5,101	3,709	1,217	32.8	3,710
1985-86	4,099	4,017	1,044	26.0	3,526
1986-87	6,495	5,214	1,328	25.5	..
1987-88	17,130	6,078	1,382	22.7	..

SOURCE Employment and Immigration Canada, *Annual Report*, various years.

Figure 8-1
The New Refugee Status Determination Process



SOURCE Based on Auditor General of Canada (1990).

country considered to be relatively safe, if their claim was previously rejected by Canada and they have not been out of this country for more than 90 days, or if they have a serious criminal record [Immigration and Refugee Board 1990, p. 13].

Once a claimant is deemed to be eligible, the hearing deals with the credible basis of his/her claim. The evidence presented at this time often includes the human-rights record of the claimant's country of origin, as well as previous decisions made by the IRB concerning nationals of the same country. Initial hearings are presided over by an adjudicator from Employment and Immigration Canada, assisted by a member of the IRB.

After the credible basis of a claim has been established, the claimant is allowed to proceed to the second stage – a hearing before a board composed of two IRB members. If the board accepts the claim, the claimant may apply for permanent-resident status.

The Canadian refugee-determination system is believed to be the most generous in the world. Claimants are represented by counsel and have access to the IRB's documentation centre. Unanimity is not required for acceptance at either stage of the process; a favourable decision by only one member of the board is sufficient. But unanimity is required for the rejection of a claim. Claimants may apply for leave to appeal to the Federal Court at both stages of the process. If they have passed the first stage, they may remain in Canada while their application for leave to appeal is pending. Claimants whose claims have been rejected and who have not appealed, or whose appeals have also been rejected, are to be deported or "removed" from Canada.

Refugee claims made before the establishment of the IRB are treated under a backlog-clearance process that, while similar to the process of determining new claims, has certain distinct features. It also has three stages. Claimants who succeed at the first stage – a humanitarian and compassionate review – do not have to go through the second and third stages. Similarly, those who succeed in establishing that their claim has a credible basis obtain residence. The third stage, for those claimants who have failed at the two earlier stages, is a further humanitarian and compassionate review by the Minister's office.

Operation of the New Determination System

The Immigration and Refugee Board's case load has been much heavier than expected for two reasons: both the

number of claims and the percentage of claims going to a full hearing have been greater than expected (Table 8-3). The Act provided for the Cabinet to establish a list of so-called "safe third countries" to which claimants could be returned; it was expected that this would remove about 40 per cent of the claimants from the rolls on grounds of ineligibility. However, such a list has not been established, and fewer than 1 per cent of claimants have been found to be ineligible.

On the basis of experience in the mid-1980s, when claims for refugee status were made by residents of countries with no recent history of human-rights abuse (such as Portugal or Trinidad), it was expected that about one third of the eligible claims would be rejected for lack of a credible basis. This would then have left about 40 per cent of the original claims to proceed to a full hearing. But claimants from such countries declined drastically after the introduction of the new system in 1989. Since then, a very large majority of the claimants have come from countries experiencing civil war or human-rights abuses, so it is not surprising that very few of the recent claims have been found to lack a credible basis. As a result, about 96 per cent of the 36,000 registered claims, as opposed to 40 per cent of the projected 18,000 claims, have been going to a full hearing.

The unexpectedly heavy case load and the need to set up the new system in seven cities across the country have put a lot of pressure on the new board. During the first year of operations, 13,537 new claims for refugee status were opened, 54 per cent of which were still pending at the end of the year. As a result, many Canadians are concerned about the viability of the new system. Two questions in particular cause concern – the high level of acceptance of claims, and the delays in processing them.

Table 8-3

**Projected and Actual Refugee Claims,
Canada, 1988 and 1990-91**

	Projected	Actual
Claims received	18,000	36,000
Minus		
Ineligible	7,200	72
No credible basis	3,600	1,428
Referred for full hearing	7,200	34,500

SOURCE Canadian Employment and Immigration Commission, Refugee Determination Task Force (projected); presentation by the Immigration and Refugee Board, 20 December 1990 (actual).

Overall acceptance rates, including both initial and full hearings, were 76 per cent in 1989 and 70 per cent in the first nine months of 1990, contrasting sharply with the 20- to 30-per-cent acceptance rates under the old system. Board officials point out that the origin of the claimants has changed since the mid-1980s. The board's records show that the claims from a small number of countries experiencing human-rights problems (Somalia, Sri Lanka, Iran, China, El Salvador, and Lebanon) were accepted in overwhelming numbers in 1990, whereas claims from countries such as Poland, Czechoslovakia, and Argentina – which had previously had high acceptance rates – often failed. In this sense, the system is working. However, this may point to a greater problem. There may be so many genuine refugees reaching Canada in the years ahead as to undermine the implementation of a well thought-out immigration policy.

As for the second concern, there continue to be long delays before claims are settled. Chart 8-2 shows the delays that were building up after 15 months of the new system's operation. Since then, the IRB has accelerated its full hearing process; by the end of 1990, it had largely caught up with the flow of claims referred to it from the initial hearings. But a severe backlog has developed for claims waiting to go through the initial hearing. Since over 90 per cent

of all claims are accepted at the initial hearing, ways are being sought to streamline this stage while respecting claimants' rights.

Delays inflict hardship on genuine refugees who must wait to find out if they will be allowed to settle in Canada. But they also allow illegitimate claimants to put down roots, which makes it very difficult for the authorities to deport them after their claims have been rejected. Fewer than a quarter of the approximately 4,000 claimants found not to be Convention refugees had been deported as of September 1990.

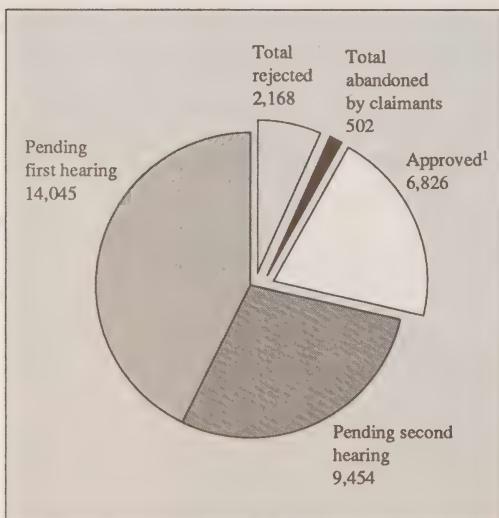
The government's reluctance to apply the Act is understandable, particularly when application entails returning people to war zones (to Lebanon, for example). But it results in a waste of resources and is likely to encourage false claims and dissipate good will towards refugees in society at large. A review of the refugee experience in OECD countries suggests that many countries experience similar reluctance – only 5 to 10 per cent of the people whose claim to asylum has been rejected are actually deported [Widgren 1990].

Meanwhile, only very slow progress has been made in dealing with the backlog of approximately 85,000 claims predating the new determination system. As of November 1990, only about 38 per cent of the cases had been cleared or were about to be cleared.

The severe hardship suffered by some of these pre-1989 claimants – who have had to live several years in a state of great uncertainty, often separated from their families – and the fact that a large majority of the backlogged claims that have been processed have been accepted, have led many observers to propose a second administrative amnesty review, similar to that undertaken in 1986. But this might once again give the wrong signal to potential claimants overseas and would undermine the new determination system.

Chart 8-2

Disposition of Refugee Claims, Canada, 1989-90



¹ Landed-immigrant status is granted once the refugee applicant has satisfied health and security checks.

SOURCE Auditor General of Canada [1990].

Costs

The receiving and processing of refugee claimants involve direct economic costs. The IRB and the CEIC spent \$83 million on processing claims under the new determination system during the 15-month period from 1 January 1989 to 31 March 1990. In addition, \$105 million (\$1,235 per case) were allocated to process the pre-1989 backlog. There is reason to believe that this estimate will prove to be too low.

As of January 1989, all claimants for refugee status whose claims had been judged credible were encouraged to apply

for work permits. Despite this, the presence of refugee claimants in Canada gives rise to additional expenditures. Those who are still waiting for their initial hearing cannot work to provide for themselves. Not all those who have a work permit find a job, and both groups require language training and health care.

Ideally, one would like to identify the costs arising from the processing and support of refugee claimants in Canada and compare them with the costs of settling refugees chosen abroad. But this would be very difficult to do. Most figures refer to the costs of claimants and refugees. Thus the government of Quebec spent an estimated \$56 million on social assistance to refugees and refugee claimants in 1989; the governments of Ontario and British Columbia spent \$112 million and \$15 million, respectively. The federal government spent about \$73 million on social assistance to refugees and destitute immigrants in 1989. This adds up to an expenditure of more than \$250 million by Ottawa and the three largest provinces that year – a figure that underestimates the costs, since it excludes health and language training. It should also be noted that some of the incremental provincial expenditure is likely to have fallen under federal-provincial shared costs programs, particularly the Canada Assistance Plan.

If the number of refugee-status claimants were projected to rise by 10 per cent annually – a very conservative projection, when one considers that the stock of refugee claimants grew at an average annual rate of 33 per cent over the period 1979-90 – annual expenditures would reach at least \$650 million (1989 dollars) by the year 2000, excluding the refugee-determination process. This is far beyond the value of any gains in scale economies or savings in tax and dependency costs from which Canadians would benefit as a result of those claimants becoming established in Canada.

The sudden surge in the number of refugee claimants also entails costs in terms of intergovernmental friction, increased difficulty in planning and executing immigration policy, and the possibility of a backlash against immigration and immigrants. We look at each of these elements in turn.

As a sovereign state, Canada has the right to determine who enters the country. The federal government is therefore considered responsible for controlling the admission of foreigners into the country – and hence the number of refugee claimants who may land in Canada. But provincial governments assume many of the costs associated with their arrival. These costs include responding to unplanned requirements for low-cost housing, schooling, and language training. The problem is particularly acute in the case of

Quebec, which is investing considerable sums to attract from abroad Francophones and others willing to integrate into a French-speaking environment. However, a large majority of refugee claimants are either English-speaking or predisposed to learn English. Their arrival in Montreal, which may be followed within a few months or a few years by a move to Toronto, other parts of Canada, or the United States, makes it very difficult for the Quebec government to implement its immigrant-selection and -settlement programs efficiently.

More generally, the unpredictable arrival of new refugee claimants and the tortuous process of determination of claims make it difficult for the Canadian authorities to implement a coherent policy based on predetermined levels of immigration and on considered choices between the different categories of immigrants. Any unplanned increase or decrease in the number of refugee-immigrants, caused by a surge in claims or by a slowdown in their processing, may force the authorities to change either the overall level of immigration or the relative shares of the three categories – family, independents, and refugees – in the planned total.

Finally, Canadians have mixed feelings about the numbers of refugee claimants who are flocking to Canada. Many in this country are proud and happy to be able to welcome people fleeing from persecution in other parts of the world. But there are also many Canadians – often the same people – who are concerned that some who claim refugee status are not genuine refugees but people who have come to Canada to improve their economic prospects. While the public does not disapprove of this goal, it is disturbed that these claimants jump the queue to move ahead of genuine refugees selected by Canada in refugee camps, of relatives waiting to join their families, and of eligible people wishing to enter the country as independent immigrants. The suspicion that Canada is being hoodwinked and that taxpayers must foot the bill creates a negative sentiment towards refugee claimants that could spill over onto genuine refugee-immigrants and possibly onto immigration in general.

Policy Issues

The refugee category of immigrants presents policy choices that differ from those raised by the other two categories – family class and independents. It is the advent of large numbers of refugee claimants that has demonstrated the difference. As long as Canada could satisfy its international obligations by selecting refugees abroad and bringing them into the country at a pace of its own choosing, the difference was not apparent. At that time, it may have been more expensive to settle refugees than other immigrants,

and the "supply" may have been unpredictable – for example, after the Soviet invasion of Hungary in 1956 or the persecution of Indians by the Idi Amin government in Uganda in 1972-73 – but the federal government retained full control of the situation.

That is no longer the case. Today, thousands of refugee claimants arrive in Canada each year. Because of its international treaty obligations, the federal government cannot deport claimants who demonstrate that they are *bona fide* refugees. The refugee-determination process has become more complex because of the need to ensure compliance with the Canadian Charter of Human Rights and the jurisprudence of the Supreme Court of Canada by allowing claimants the right to make their case adequately. The charter also effectively guarantees claimants decent living conditions while the process takes its course.

The Council subscribes wholeheartedly to these fundamental obligations. It must point out, however, that honouring this double set of humanitarian obligations has serious policy consequences for Canada; other countries, with less generous domestic human-rights protection – such as the United Kingdom, Germany, and Australia – may be able to delay facing these consequences.

The costs associated with refugee claimants are high. The financial costs include living assistance, determination of claims, and settlement of successful applicants. There are important human costs, borne by claimants who must wait for a decision, as well as serious political costs, including the possibility that refugees will pre-empt policy decisions with respect to the proportions of immigrants to be admitted in each of the three categories.

The Canadian government could respond to this situation in three different ways – by improving the determination process, by reducing the flow of claimants, or by doing nothing.

The IRB's budget was increased in 1990, and the board has already reduced the delays between the initial and the full hearing. Various suggestions for speeding up the initial hearings are being considered, and the Law Reform Commission of Canada is currently conducting a study of the process that is likely to lead to further improving and expediting it while respecting claimants' rights to the due process of law. Such improvements would reduce the hardship suffered by *bona fide* claimants waiting for a decision on their cases, and it would lower the social-assistance costs. But there is no guarantee that it would deter false claims or reduce the board's workload in the future, since speedier processing might attract more claimants.

Reducing the flow will be more difficult. Improved international communications and transportation have made it easier for people to migrate, and some estimates suggest that there are as many as 15 million potential refugees in the world at present. One way of attempting to reduce the flow is by adopting tighter border controls. The 1990 report of the Auditor General noted, for example, that the fines levied against companies transporting passengers with false or no documentation have not been collected. Visa requirements could also be tightened. Another step would be to deport claimants who have been found not to be Convention refugees. Other more positive measures might include working with other countries to improve and operationalize the idea of "safe third countries."

The member states of the European Community started to cooperate on asylum issues in 1986, as the adoption of the Single European Act heralded the free movement of people, as well as goods and services, between the 12 member countries. In 1990, they adopted the Dublin Convention to determine "the State responsible for examining applications for asylum lodged in one of the member-states of the European Communities." The principle established is that the country first receiving the asylum seeker should handle the application. The member states of the European Free Trade Area are considering joining the Convention. There are also consultations taking place within the OECD and the United Nations that are still at the preliminary stage [Widgren 1990]. An effective international agreement on "safe third countries" to which claimants could be returned would probably reduce the flow. However, some European countries see Canada as an obvious destination for asylum seekers and may not want to include it in an enlarged convention.

Doing nothing and hoping the problem will solve itself in the longer run is the third option. The Economic Council has no expertise in either administrative law or policing, and that is why we have made no recommendation with respect to refugee claimants. Yet we feel obliged to draw attention to the fact that a do-nothing policy, while it might seem to avoid costs and hard decisions today, would not be a sensible option, for it would entail heavy costs at some point in the future. Those costs are likely to be financial in the first instance, as the stock of refugee claimants continues to grow; based on recent experience, a 10-per-cent annual increase would give us well over 250,000 claimants in the year 2000. Reluctance to assume these costs and frustration with the growing backlog might, in turn, lead to an ad hoc repudiation of Canada's treaty obligations, which would be most regrettable and would entail high political costs, both at home and abroad.

9 Prejudice and Tolerance in Canada

Both the research results presented in the preceding chapters and the findings of earlier studies suggest that the overall economic impact of immigration is fairly small. Whether or not immigration levels are raised or lowered seems unlikely to have any major impact on the economic well-being of the average Canadian.

However, policy decisions related to immigration must involve a consideration of social as well as economic consequences. Indeed, given the relatively small economic impact, social considerations assume an even greater importance. In analysing that dimension of the immigration question, we are naturally drawn away from our traditional economic perspective to adopt an approach that relies more on concepts from the disciplines of social psychology and sociology.

In discussions of social problems, care must be taken with regard to the attribution of causality. For example, the statement that *immigration* causes social problems can all too easily be twisted into an assertion that *immigrants* cause social problems. As with all problems in human interaction, the analysis must include all of the participants and all of the situational factors in order to be complete. And so it is here: our attempts both to understand social problems related to immigration and to find solutions for them must take into account the characteristics of the host community in addition to those of the immigrants themselves, as well as various contextual factors, such as economic conditions.

It is important to keep this concept of *joint causation* in mind when considering the implications of the theory and the research findings described in this chapter. Simplistic formulations – for example, the statement that a problem related to, and revealed by, immigration is therefore caused by immigration and should be solved by changing either the number or the types of immigrants admitted – could well result in choosing a solution less desirable than what a fuller analysis would recommend.

In addition to discussing theory and research evidence related to intergroup conflict, we shall assess whether changes in the ethnic profile of immigrants over the past two decades, or the rate at which those changes have occurred, have contributed to the potential for ethnic conflict in Canada. In order to do this, we obviously need to find a

usable index, or measure, of the potential for conflict. One such index would be conflict itself; indeed, a measure of actual conflict was used in a study, discussed later on in this chapter, in which data on anti-Semitic incidents were analysed. However, comprehensive statistics on ethnic conflict in Canada are not available. Moreover, we are concerned here with the *potential* for conflict rather than with its manifestations, past or current. Thus an appropriate index, for our purpose, is a measure of the chief psychological factor underlying intergroup conflict – namely, *prejudice* (see box on page 104).

Theories Regarding the Origins of Prejudice

Seeds of Prejudice

In our society, the individual usually begins life as a member of a family group and then, over the course of his/her lifetime, acquires membership status in a variety of other, more or less structured, groups. Once the individual has reached the stage of development at which awareness of membership occurs, that awareness begins to influence his/her social perception: the individual then labels others as members or non-members of the groups to which he/she belongs (known as *ingroups*) or does not belong (called *outgroups* or, in the case of groups to which the individual would like to belong or that he/she admires, *positive reference groups*). This cognitive process is known as *social categorization* [Tajfel 1978]. Studies have shown that an individual's self-perception as a member of a group – even a group whose basis is entirely arbitrary and seemingly meaningless – will lead that individual to display ingroup favouritism [Tajfel et al. 1971].

Why does group membership have such effects? Part of the answer may lie in the significance to the individual of his/her relationships with other ingroup members. Our relationships with others generally involve some net positive outcome that can be seen as the reason for their continuation. For example, we receive love and affection from family and friends, monetary rewards from work groups, and so on. Thus we tend to value our relationships with other group members and to feel positively about them. This

Definitions

Prejudice has been defined as a negative attitude or a predisposition to behave negatively towards a group or individual members of that group that is based on a faulty and inflexible generalization [Allport 1954].

A key aspect of prejudice is its irrational nature. For example, given the well-documented fact that men tend to be more violent than women, it is not being prejudiced to expect a particular woman to be less violent than a particular man in the absence of any information other than the genders of the individuals. However, to treat that probability as a certainty and to ignore contradictory information about the individual in question is irrational and prejudiced.

Different types of prejudice are often named according to the group that is the target of the generalization. For example, *sexism* is prejudice towards either the male or female gender; *ethnocentrism* is prejudice towards ethnically different others; and two types of ethnocentrism are *anti-Semitism* (prejudice towards Jews) and *racism* (prejudice towards "racially" different others).

The term *racism* is often misused in common parlance to mean ethnocentrism – e.g., people referring to anti-Semitic behaviour as "racist." This misuse of the term has arisen as a result of the historical focus on black/white conflict in both the media and academic research. This usage is so widespread that even those working in the field often fall prey to it. The inappropriate use of this term could be dangerous, as it eventually might lead people to think that prejudice that is not based on skin colour is somehow a less serious problem.

Ethnicity refers to characteristics such as language and religion, as well as "racial" characteristics. "Race" is a biological term designating a genetically distinct subspecies. Historically, ethnologists have divided the human species into three "races" – Negroid, Caucasian, and Mongoloid. It is now recognized, however, that the differences between individuals within these groupings are far greater than the differences between the groups; accordingly, there is general agreement that the term "race" cannot be accurately applied to humans.

"Racists," however, still use this system of classification, reacting to differences in skin pigmentation as if they mean that the other is a member of a different species, despite the fact that genetically the difference is no more meaningful than a difference in hair colour or in right- versus left-handedness. Our use of the terms "race," "racial," and "racism" refers to the perceptions of these prejudiced individuals who mistakenly believe that "races" exist in the human species and who label an ethnically different other as being "racially" different. Our use of these terms is necessary to describe this social problem accurately but in no way represents an endorsement of the concept of "race."

means that, relatively speaking, we feel more negatively towards those who are outgroup members and with whom we do not have such positive relationships. That attitude is not prejudice but simply reflects the fact that we will naturally have a more positive evaluation of someone who is already our friend or loved one than of a stranger who may or may not come to be a friend or loved one.

While that process may not be prejudice, it may contain some of the seeds from which prejudice grows. Consider the case of the newscaster reporting that no Canadians were among the 500 dead in an earthquake in Iran or the Philippines. The motivation for such a statement is not racism or prejudice but simply a desire to let Canadians know whether it is likely that their friends or loved ones are among the fatalities. And yet, in a sense, the statement implies that the deaths of Filipino or Iranian nationals are less tragic than would be the deaths of Canadians. There is no malice in the statement, but semantically it is not radically different from clearly racist or ethnocentric utterances such as "it was only a bunch of Iranians biting the dust."

Thus the positive value that we place on our relationships with members of our ingroup will tend to lead us to evaluate ingroup members positively relative to outgroup members. In so doing, we are closer to taking the first of the two steps (glorification of the ingroup and derogation of the outgroup) that constitute ethnocentrism, although it must be emphasized that making a positive evaluation of the ingroup is certainly not the same as glorifying its members. What, then, transforms this natural liking of the ingroup and the feeling of relative neutrality towards outgroup members into a glorification of the ingroup and a derogation of, and hostility towards, outgroup members?

The Role of Insecurity

On the individual level, one of the explanations offered for our liking those who are similar to ourselves is that the similarity provides the reassurance that we look, think, and behave the way we "should" [Byrne and Clore 1967]. The dissimilarity of others, however, not only fails to reassure

us but can increase our self-doubt by showing us that there is another way to look, think, or act. If this has the effect of increasing self-doubt, we may react defensively and try to avoid people who are different from ourselves, disliking them because they make us feel uncomfortable and finding fault with them in an attempt to make ourselves look better by comparison. Whether or not we will react this way will depend on how secure we feel about ourselves.

One theory argues that racism on the individual level is based on just such a process. It contends that rejection of others with different skin colouring stems from the presumption of a psychological difference that, in turn, the insecure individual perceives as threatening [Rokeach 1960].

At the level of the group, another theory proposes that individuals derive self-esteem from the groups to which they belong [Turner 1975]. As a result, insecurity will lead to attributing negative qualities to outgroups and exaggerating the positive aspects of the ingroup. This model would apply both to insecurity in one individual and to the collective insecurity of all group members.

Another formulation, known as *realistic group-conflict theory*, suggests that intergroup conflict stems from competition for scarce resources [Levine and Campbell 1972]. In this case, it is economic insecurity, engendered by the scarcity of resources, that leads to hostility towards the outgroup.

Prejudice as Justification

Other theories pertaining to the maintenance of self-image contend that negative attitudes towards outgroup members are the consequence, rather than the source, of intergroup differences in economic or social power. The argument is that after one group succeeds in subordinating another, its members will then develop negative attitudes towards, and beliefs about, the members of the subordinate group in order to justify the power relation between them [Bolaria and Li 1988]. That is, these theories argue that the whites enslaved the blacks and then developed beliefs about black inferiority in order to justify their enslavement.

Evidence supporting the existence of this type of process comes from research showing that individuals will change their beliefs to justify their behaviour [Festinger 1957]. Also, studies on the way in which people make causal inferences have shown that individuals tend to attribute their own success to internal factors (such as their skill or effort), while they see their failure as a product of the situation

(such as the task being difficult). The pattern is reversed when they consider the success or failure of others. There is then a tendency to view the success of others as the result of situational factors ("the task was easy") and failure as the result of internal factors (the others are "lazy" or "stupid") [Harvey et al. 1974]. Such research findings would predict that negative beliefs about the outgroup would develop as the result of a situation in which the ingroup had achieved dominance.

Differences across Socioeconomic Strata

Different groups will be affected to varying degrees by the factors believed to be determinants of prejudice. Realistic group-conflict theory tends to apply to groups at the lower end of the socioeconomic scale because of their relative vulnerability in competition for economic resources. Justification processes are more likely to be at play among groups at the higher socioeconomic levels – that is, groups with greater levels of economic success in need of justification. If both types of theory are valid, different determinants would be operating at different socioeconomic levels.

Other theories regarding the origins of prejudice may also be correlated with socioeconomic status. For example, the theory postulating that prejudice results from a harsh, disciplinarian upbringing would predict greater levels of prejudice in individuals from working-class backgrounds, given the greater tendency for that style of parenting among groups that are lower in the socioeconomic scale. Similarly, the positive effects of economic success on self-esteem would also result, according to social-identity theory, in lower levels of prejudice among the well-to-do.

While such considerations might suggest that prejudice is a more serious problem at the lower end of the socioeconomic scale, the scientific jury is still out on the relative merits of one (or more than one) theory over the others and on the relative strength of the effects of the different types of determinant processes. If, for example, the justification type of process were much more powerful than the other types, that would mean that the problem of prejudice would be more severe at the upper socioeconomic levels; and, because they hold more power, individuals at that end of the scale might do more damage through their discriminatory behaviour than would individuals with lower socioeconomic status.

What must be understood, here, is that the processes, and hence the remedies, may differ across social strata. For example, an educational program stressing that immigration does not pose an economic threat might be effective among

people with a low socioeconomic status but might be totally ineffective with a target group at the upper end of the scale.

Predictions of the Theories

What would these theories predict about the consequences of increasing the proportion of ethnically different people in the overall population or of speeding up the growth of that proportion?

Realistic group-conflict theory predicts that if an ethnically different group grows in size, that will result in increasingly negative attitudes on the part of the ingroup (in this case, native-born Canadians) because of the resulting increase in the competition for scarce resources (including jobs). Other theories postulating that prejudice is the result of insecurity also predict that greater numbers of ethnically different immigrants will lead to higher levels of prejudice and conflict.

Studies conducted in the late 1950s offered some empirical support for this view, finding that racial discrimination tended, to some extent, to be a function of the size of the black community [Blalock 1957]. South Africa might be viewed as an example of the increased severity of oppression that is necessary as the result of the oppressed group far outnumbering their oppressors.

A different perspective comes from studies seeking to determine whether there is a "safe" proportion of minority-group members. In the context of school desegregation in the United States, for example, researchers looked for a "tipping point" beyond which whites would pull their children from an integrated school. They found that the number of white parents withdrawing their children was no different whether the proportion of blacks was 10 per cent, 50 per cent, or 70 per cent [Stinchcombe et al. 1969]. Such results led the author of a widely used text in social psychology to conclude that there is no "ideal percentage" or "magic ratio" of minority to majority group and that other factors – such as the rate of change, the role of community leaders, and the past history of group relations – are much more important [Wrightsman 1977].

The *contact hypothesis* (discussed in greater detail in the next chapter) argues that contact between groups can lead to more positive attitudes and can reduce prejudice by dispelling stereotypes and increasing familiarity, provided that certain conditions are met (e.g., equality of status or a cooperative context) [Amir 1969]. Evidence in favour of the contact hypothesis was found in a Canadian study in which

it was shown that attitudes towards different ethnic groups were more favourable in areas where larger numbers of such groups were present. For example, people living in areas with relatively large proportions of Italian residents were found to have a generally more favourable attitude towards Italians than did those from communities where relatively few Italians lived [Kalin and Berry 1982].

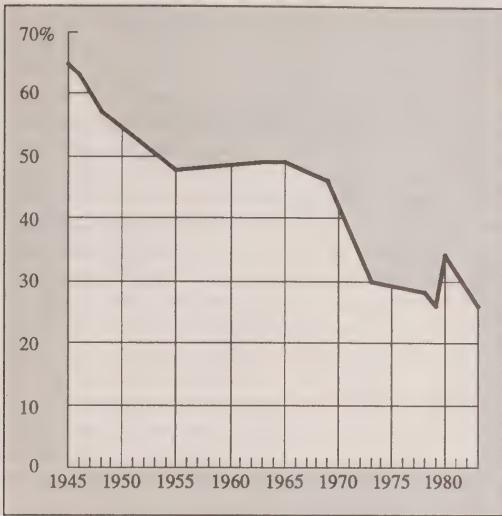
While the theories discussed here may differ in how they explain prejudice, evidence supporting the predictions of one theory will not necessarily prove that the others are wrong. In many cases, different theories make similar predictions; in almost all cases, the predictions made by one can be reconciled with those made by another. Even the seemingly contradictory predictions made by the realistic group-conflict theory and the contact hypothesis can be reconciled. Indeed, the conditions that the contact hypothesis specifies as necessary for positive attitude change are not met when there is competition for scarce resources – the case in which the realistic group-conflict theory is applicable.

In other words, all of the theories that we have discussed may be valid, which means that there may be many ways in which an individual can become prejudiced. In such a theoretical context, especially when the research is in the form of surveys rather than experiments, the results of a study will tend to suggest which type of process is operating or which theory is applicable to a given situation, rather than prove that one theory is correct and the others are wrong.

The foregoing discussion about the theories of prejudice sets the backdrop for an examination of the evidence of prejudice in Canada. What are Canadian attitudes towards immigrants and visible-minority groups? Have these attitudes changed over time? Is an increase in immigration likely to increase the incidence of ethnic conflict in Canada?

Trends in Canadian Attitudes

The attitudes of Canadians towards immigrants and immigration have fluctuated over the years. Support for a larger population was very strong immediately after the Second World War, then declined steadily to 1973 [Tienhaara 1974] (Chart 9-1). Clearly, this decline had nothing to do with the presence of visible-minority immigrants, as there were relatively few of them in Canada during that period. Since then, support for immigration has risen slightly but has remained well below the peak reached during the late 1940s.

Chart 9-1**Proportion of Survey Respondents Wanting a Larger Population, 1945-83¹**

1 Participants in the surveys were asked: "Would you like to see Canada have a much larger population, or do you think the present population is just about right?"

SOURCE Tienhaara [1974].

Interpreting the Trends

Any evidence suggesting a backlash against immigration or visible-minority groups – such as the results of an opinion poll that showed a drop in the number of people expressing favourable attitudes towards immigrants or an increase in the number of incidents of conflict – must be interpreted carefully.

The number of incidents of conflict, for example, is not a straightforward index of underlying levels of prejudice. The presence of a greater number of targets for the expression of prejudice may lead to a greater frequency of such incidents in spite of a general lowering of individual levels of prejudice. A greater number of instances of hostility or discrimination may simply be a function of the fact that the larger size of the ethnically different population provides a greater opportunity to express prejudice. The level of prejudice might have been much worse in earlier years, but it might have been less visible because of a shortage of ethnically different targets.¹ Also, a spate of bombings or beatings that is the work of an extremist minority may create

the false impression that intergroup relations are deteriorating, when in fact the attitude of the majority of the population is becoming more positive and only the attitude of the small group responsible for the attacks is becoming more negative. Thus the actual number of incidents of intergroup conflict, taken on its own, can be a very misleading index of the true state of intergroup relations.

Added to these forms of distortion is the possibility, if not the probability, that there is greater reporting of instances of ethnic conflict because there is a greater sensitivity to such issues in the general population and in the media, and because there are better mechanisms today for monitoring human-rights abuses. Better reporting may also create the impression that conditions are deteriorating even though that is not the case in reality.

Better reporting, an increase in the number of targets, and the possibility of a small minority deviating from the trend of the majority of the population – all may lead to an increase in the actual number of recorded incidents of conflict, even though the level of intolerance and prejudice among the majority of the population may not be increasing. For this reason, change over time in the simple number of incidents is not a very reliable index of the state of intergroup relations. (Weighting that number by the proportion of visible minorities in the community provides only a partial solution, as it does not correct for changes in reporting or for the fact that a small group of extremists may be responsible.)

Public-Opinion Surveys

The most common measure of public attitudes is the national opinion survey (or poll). Typically, the organizations conducting these surveys select between 1,000 and 2,000 individuals at random from the general population, using a quota system to ensure that this sample is representative with respect to region, gender, and age. Interviewers solicit the views of the respondents regarding the issues under investigation and obtain further information about the respondents themselves (occupation, religion, annual income, and so on). The results of the surveys are then extrapolated to the population as a whole – that is, the views of the respondents in the sample are interpreted as being representative of the views of the entire population, within a certain margin of error.²

There are various technical problems associated with such surveys. A momentary fluctuation in the public mood caused by some isolated and transient event may create the false impression that a trend is developing; samples may,

by chance, be nonrepresentative of the general population; poorly constructed questions (e.g., questions that are too long or too complex) may be confusing or may mean different things to different respondents; and minor changes in the phrasing of a question may lead to radical changes in the proportion of respondents who answer affirmatively.

Despite their potential to mislead, opinion surveys are a powerful and useful tool when properly designed and interpreted. One of the keys to providing such proper interpretation is to make use of questions that have been checked to ensure that they really measure what is wanted. This greatly strengthens the level of confidence that can be placed in the results. So, too, does making use of more than one survey.

For our purposes, surveys are especially useful because they give all respondents an opportunity to express their level of prejudice, so that – contrary to what happens in the case of the number of incidents of conflict – there is no distortion caused by variations in the availability of targets or by changes in reporting resulting from an increased awareness that agencies such as B'nai Brith are interested in such events.

While many of the national surveys conducted by companies such as Gallup, Decima, and Angus Reid have included questions pertaining to immigration and ethnic relations, interpreting the results of these studies is far from straightforward. Consider the question, frequently asked by Gallup, asking respondents whether or not they believe that racism has been increasing. A positive response may reflect the fact that respondents have observed a greater number of incidents of a racist nature; alternatively, it may reflect an increasing concern about racism because incidents that, in earlier times, might have gone unnoticed are now being interpreted as racist. The first interpretation might indicate that racism is on the rise, while the second might indicate the opposite – that is, that concern about racism, and consequent attempts to reduce it, are increasing.

A slightly different type of ambiguity is attached to questions such as those which ask respondents whether or not they would like to see an increase in immigration. A negative response might represent a racist rejection of immigrants or simply a perception that Canada's population is large enough. Again, it is difficult to put a firm interpretation upon the responses to the question.

A further problem is that, in most of the surveys, there are usually only one or two questions attempting to tap a given attitude. Because of the various sources of measurement error inherent in any given question, far better meas-

urement usually can be obtained if several questions are employed in an attempt to measure a given attitude or personality trait.

Methodology

To overcome the interpretive problems created by the absence of systematic tracking of public attitudes towards immigration and ethnically different groups, we chose to analyse data from a large number of surveys rather than risk forming misleading impressions by looking at only a few surveys. In fact, we examined no fewer than 64 different national surveys conducted by Gallup, Decima, and Environics over the period 1975-89. Thus the results reported below give a nuanced understanding of the evolution of public opinion regarding immigration, as well as of the levels of tolerance or of its inverse, prejudice.

The data that we used consisted of questions pertaining to immigration, immigrants, refugees, ethnic minorities, or racism that were included in surveys conducted by the three organizations over that time period. This set of questions included the following:

- 21 questions (of which nine are repeated from one to seven times) from 36 Gallup surveys;
- 16 questions (of which 10 are repeated from one to six times) from 21 Decima surveys;
- 1 question (repeated six times) from seven Environics surveys.

The analysis of the survey data was conducted in two stages. First, we attempted to determine the nature of the attitudes measured by the various questions. That enabled us, at the second stage, to arrive at a more profound interpretation of the survey results. The results of the first stage of analysis also made it possible to construct "composite" measures from different questions measuring the same attitudes, to try to avoid errors that might result from a complete reliance on single items.

Stage 1

At the first stage of analysis, we examined the interrelations among the various questions. We began by segmenting the respondents according to degree of urbanization, level of education, age, and gender (e.g., female respondents, aged 30 to 39 years, with a high school diploma, living in rural communities). On each item or question, the scores

of all respondents falling within a given segment were averaged to provide an overall score representing that segment.

Next, we examined how the response of a population segment to each question was related to its responses to other questions. We used a technique called *factor analysis* (see box below) to shed light on the meaning of responses to the various questions by systematically examining their relations to responses to other questions.

Only one question from each survey was included in the factor analysis in order to prevent excessive correlations between questions that could result from their having been answered by the same individuals ("response style effects"). In the case of questions that were repeated in different surveys, suitable alternative questions were included where possible, in order to maximize the number of different questions in the overall pool. For example, if two questions appeared in each of two surveys, we included the data on one question from the first survey and the data on the second question from the other survey. If alternative questions were not available, then scores for the repeated questions were averaged across the different surveys in order to maintain a reasonable ratio of segments to questions. The analysis

included the scores of 270 population segments on 38 different questions from 64 surveys, representing the scores of approximately 80,000 respondents.

Three "factors" emerged from the analysis.³ The first two were identified as representing attitudes towards immigration – the first seemed to measure the respondent's impression of, and attitude towards, the volume of immigration (the "quantity" factor), while the second seemed to be related more to the selectivity or management of immigration and to its consequences (the "management" factor). The third factor was identified as measuring the dimension running from tolerance to prejudice (the "tolerance" factor) and was marked by questions dealing with the preservation of immigrant cultures, approval of racial intermarriage, and special status for native peoples. The three factors and the various survey questions that tap them best (that "load on" them most strongly, in the parlance of social psychologists) are listed in the box on pages 110-11.

Examining the common content of the items listed under each factor should help in understanding the nature of the factor. For example, the common thread running through most of the questions listed under Factor 1 is quantity: "too

Factor Analysis

The meaning of the answer to a given question is not always obvious from a simple examination of its content. What seems to be a measure of attitude towards immigration may, in fact, be a measure of racism – and vice versa.

Psychologists have developed a way to resolve the ambiguity regarding the meaning of a given measure by examining how responses to it are related to responses to other measures. Take, for example, the three items used by Gallup to measure approval of black/white intermarriages, desire for a larger population, and support for increasing immigration. If the last of these simply measures the respondent's attitude towards immigration, we would expect the same people who endorse higher levels of immigration to endorse also a larger population size for Canada – that is, we would expect a positive correlation between the responses to the two questions. We would not, however, expect any relation between responses to the "immigration" item and responses to the item expressing approval of black/white marriage. If, however, the "support for immigration" question actually measures prejudice or racism, then we might expect to find responses to it to be related to responses to the "black/white intermarriage" question and to be unrelated to opinions regarding a larger population size. Thus, while we may be quite uncertain about the meaning of the responses to any one question, by looking at the way these responses are related to the responses to other questions, we may be able to resolve a large portion of that uncertainty.

With only three items, simply examining the correlations between them will yield the required information. However, when dealing with larger numbers of items, the number of intercorrelations quickly increases to the point where it is almost impossible to keep track of which item is related to which other item and in which way. Fortunately, a statistical procedure, called *factor analysis*, has been developed which essentially conducts a mathematical examination of the correlation matrix (the set of the correlations between each item and every other item) and produces a solution that answers the questions: How many different dimensions (factors) are being measured by this set of questions or items? Which items are measuring which dimension (factor)? It is then possible to examine the content of the items associated with ("loading on") a given factor to determine its nature. With regard to the three items, then, if the "immigration" item "loaded on" the same factor as the "black/white intermarriage" item, this would suggest a "prejudice" or "racism" factor. If "immigration" loaded on the same factor as "larger population," that would suggest a "perceived consequences of immigration" factor.

Factor Associations and Text of Questions/Items

The absolute values of the numbers in the left-hand column represent the degree to which a question or item is associated with the factor under which it is listed (how much it "loads on" that factor). In the analysis, the responses to the majority of the questions or items were scored positively – e.g., agreement with a question or item suggesting a favourable attitude towards immigration or visible-minority members was given a value of 4, say, while disagreement was given a value of 2 or 1. Because of the way some questions or items were phrased, however, the scoring process in their case was reversed, so that a higher score would represent a positive attitude towards immigration or members of visible minorities, thus ensuring consistency in the scoring process. These questions or items are designated by (R).

Factor 1: Attitude towards immigration quantity

- 0.79 Overall, there is too much immigration to Canada. (R)
- 0.50 Do you think that Canada should have a policy that would allow us to accept more or accept fewer refugees?
- 0.40 What do you think Canada should do about the situation in South Africa?
- 0.40 As you may know, many refugees from Vietnam – sometimes called the "boat people" – are temporarily located in Malaysia and other Indo-Chinese countries, but are seeking permanent relocation elsewhere. Canada is prepared to accept 3,000 of these refugees each month. With equal participation by the government and by private sponsorship, this will make it possible for up to 50,000 refugees to take their homes in Canada by the end of 1980. In your opinion, is this too few, too many or just about right?
- 0.39 If it were your job to plan an immigration policy for Canada at this time, would you be inclined to increase immigration, decrease immigration or keep the number of immigrants at about the same level?
- 0.39 Considering your own circumstances and where you work, how would you describe your employer's commitment to equal treatment of all ethnic groups?
- 0.37 As far as I'm concerned, too many people from different races and cultures have been allowed to immigrate to Canada. (R)
- 0.32 As you may know, many refugees from Vietnam – sometimes called the "boat people" – are temporarily located in Malaysia and other Indo-Chinese countries, but are seeking permanent relocation elsewhere. In your opinion, should Canada allow more of these refugees to relocate in Canada or not?
- 0.30 Would you like to see Canada have a much larger population or do you think the present population is just about right?

Factor 2: Attitude towards immigration management and consequences

- 0.68 Anyone who wants to should be able to immigrate to Canada.
- 0.58 Many different individuals and groups receive social services and benefits from the government. Would you say immigrants should receive more or less social services and benefits from the government than they do now?
- 0.51 If it were your job to plan an immigration policy for Canada at this time, would you be inclined to increase immigration, decrease immigration or keep the number of immigrants at about the same level?
- 0.49 There has been some discussion lately about the probability of racial problems in Canada. In your opinion, has there been any increase in racial intolerance over the past five years, or not? (R)
- 0.43 Do you think special consideration should be given to members of minority ethnic groups?

(cont'd.)

Factor 2 (concl'd.)

- 0.33 From time to time there are reports in newspapers or on television giving information on a particular illegal immigrant who is being deported from Canada. Generally speaking, if you were to take sides, would you be more inclined to take the side of the immigrant or the side of the Immigration Department representatives?
- 0.31 Would you say that the federal government is doing a good or a poor job in managing the immigration system in Canada?
- 0.31 Do you believe that over the next five years racial problems in Canada will increase or not? (R)

Factor 3: Prejudice – tolerance

- 0.59 What do you think is better for Canada: that new immigrants be encouraged to maintain their distinct culture and ways, or to change their distinct culture and ways to blend in with the larger society?
- 0.56 In general do you approve or disapprove of marriages between whites and blacks?
- 0.47 Canada's native people, the Indians and the Inuit, should not be given special status and rights – they should be treated just like the rest of us.
- 0.41 Is it your impression that the majority of those hoping to enter Canada as refugees are legitimate refugees or not?
- 0.37 What do you think Canada should do about the situation in South Africa?
- 0.32 Mentally and emotionally, women are capable of doing any job a man can do.
- 0.32 As you may know, governments in Canada are introducing legislation which would make employers legally bound to ensure all people equal access to all positions, training, promotion and developmental opportunities regardless of their race, colour, age, sex, marital status, nationality, ancestry or place of birth. Are you very supportive, somewhat supportive, somewhat opposed, or very opposed to such legislation?
- 0.32 I'm going to list some social or public issues and I'd like you to tell me whether, in the past two or three years, you have been actively involved either on your own or with others in expressing a concern about these problems. How about . . . ethnic and minority group issues?

much immigration," "more or fewer refugees," "too few or too many," "increase . . . decrease," "too many people," and so on. The numbers in the left column ("factor associations," also called "factor loadings" in the profession) are estimates of the extent to which each statement is a valid measure of the factor (maximum value possible = 1.0). In the case of the "quantity" factor, for example, the "too much immigration" question has the highest value (0.79), indicating that it is probably the question that best measures the attitudinal dimension represented by that factor.

Stage 2

At the second stage, with the true meaning of the various questions clarified, we analyse the trends in the answers, as well as the variables that determine why people vary in

their responses. It is, of course, especially important to know how the tolerance/prejudice factor and the questions that measure it have changed and why. In considering these changes, we are particularly interested in the role played by visible minorities and by economic conditions, but many other variables are also interesting and possibly important to policy – e.g., the level of education. Guidance as to which variables to include was provided by past research findings and by the theoretical arguments regarding the determinants of prejudice (described at the beginning of this chapter).

Analysis of Individual Questions — Several questions that had been included in more than one survey and seemed to be good measures of their respective factors were subjected to further analysis.⁴ This consisted of examining the change in scores over time and the effects on scores of the characteristics of respondents (gender, age, level of education) and

variables representing their social and economic environment (proportions of visible minorities in the community, community size, unemployment rate and changes therein).⁵

Separate analyses were performed for Anglophone and Francophone samples. The latter were restricted to residents of Quebec, while the former were restricted to residents of the other provinces. Francophone samples were generally only 20 to 30 per cent as large as Anglophone samples. This may, in some cases, result in a statistically significant effect being found in the Anglophone samples but not in the Francophone samples.⁶ The more significant aspects of our results (e.g., the impact of the level of education) are discussed in greater detail below; for the technical details of the results, see Appendix Tables D-1 to D-7.

Analysis of Measures Based on the Three Factors — As stated earlier, we created composite measures that reflected the results of the factor analysis. This was done by adding the population-segment scores for the questions (or items) associated with a given factor. Items associated with more than one factor were included in only the composite measure with which they seemed to have more affinity, based on their "factor loadings" and on the question content. For example, the content of the "pressure South Africa" item fits better with that of the questions associated with the "tolerance" factor than with the content of the items associated with the "quantity" factor, so it was included in the composite measure representing tolerance.

The composite measure representing the "quantity" factor included the "too much immigration," "accept more refugees," "allow more boat people," "employer treatment of ethnic groups," and "too many races and cultures" items.

The composite measure representing the "management" factor included the "anyone should be able to immigrate," "more services for immigrants," "increase immigration levels," "intolerance has increased," "equal access," "would side with immigrant," "government doing a good job," and "racism will increase" items.

The third composite measure, representing the "tolerance" factor, contained the "encourage culture maintenance," "approve black/white marriage," "special status for natives," "refugees are legitimate," "pressure South Africa," "women as competent as men," "support equal access legislation," and "active in minority group issues" items.

Analyses were then conducted to examine the influence of variables such as education, unemployment, and the proportion of visible-minority immigrants on scores for each of these composite measures. Unfortunately, it was not

possible to estimate changes over time, as we were able to do in the individual item analysis, since many of the questions in the composite measures were only asked once. Appendix Tables D-8 to D-10 present the technical details of the results.

Results

Recall that the factor analysis revealed three groupings of items. These were questions associated with the factors of immigration "quantity" and "management" and with a "tolerance" factor. The most important results, with respect to the potential for conflict, are those that pertain to the "tolerance" factor – i.e., both to the composite measure and to the individual items ("pressure South Africa" and "approve black/white marriage") that are strongly associated with it.

The central question that we are attempting to address in this analysis is whether or not there is evidence of growing intolerance (potential for conflict) as a result of increases in the proportion of visible-minority immigration in Canada. Thus the effects of special relevance are "trends over time" and the effects of the "proportion of visible-minority immigrants." The analysis also revealed that great importance attaches to the interactions between the latter proportion and the state of the economy, as represented by unemployment rates.

Key Findings

The key findings are: 1) the presence of positive trends over time and the absence of any negative trends over time associated with the "tolerance" factor, suggesting no increase in the potential for conflict; 2) positive relations between the proportion of visible-minority immigrants and various attitudes, suggesting that positive "contact" effects have been occurring; and 3) negative relations between the rate of growth of the proportion of visible-minority immigrants and several measures, suggesting that the potential for conflict is higher when the proportion of visible-minority immigrants increases rapidly (see the box on page 113 for a summary of the overall pattern of effects).

Education

With respect to the composite measures, the more educated respondents were more favourable towards immigration on both the "quantity" and the "management" factor measures, though in the latter case there was no significant

Pattern of Effects on Tolerance and Immigration Attitudes

	Tolerance (prejudice)	Immigration quantity	Immigration management
Anglophones			
Proportion of visible minorities	positive		
Rapid change in proportion	negative		
Unemployment		negative	
Visible minorities and unemployment		negative	
Trend over time	positive	positive	negative
Francophones			
Proportion of visible minorities	positive	positive	
Rapid change in proportion	negative	negative	
Unemployment		negative	
Visible minorities and unemployment		negative	negative
Trend over time		negative	

effect within the Francophone sample. On the composite measure of "tolerance," the more educated respondents were more tolerant in both language groups.

Significant effects of education were also found in almost all of the individual item analyses in both Anglophone and Francophone samples. More educated respondents were more likely to favour increased immigration, less likely to feel that there were too many immigrants or too many races and cultures, more likely to advocate increased services for immigrants (Anglophone sample only), more likely to support government pressure on South Africa, and more likely to approve of interracial marriage. An example is shown in Chart 9-2.

Gender

Men tended to have more favourable attitudes towards immigration than did women on questions associated with the "quantity" factor. Men were also more likely than women to favour increased levels of immigration and were less likely to feel that there was too much immigration or that there were too many races and cultures.

Women were more favourable than men in attitudes related to the "management" factor. Women were more likely to favour providing more services for immigrants and allowing into Canada anyone who wants to immigrate. These attitudes were also reflected on the composite measure, though the result was only significant in the Anglophone sample.

Age

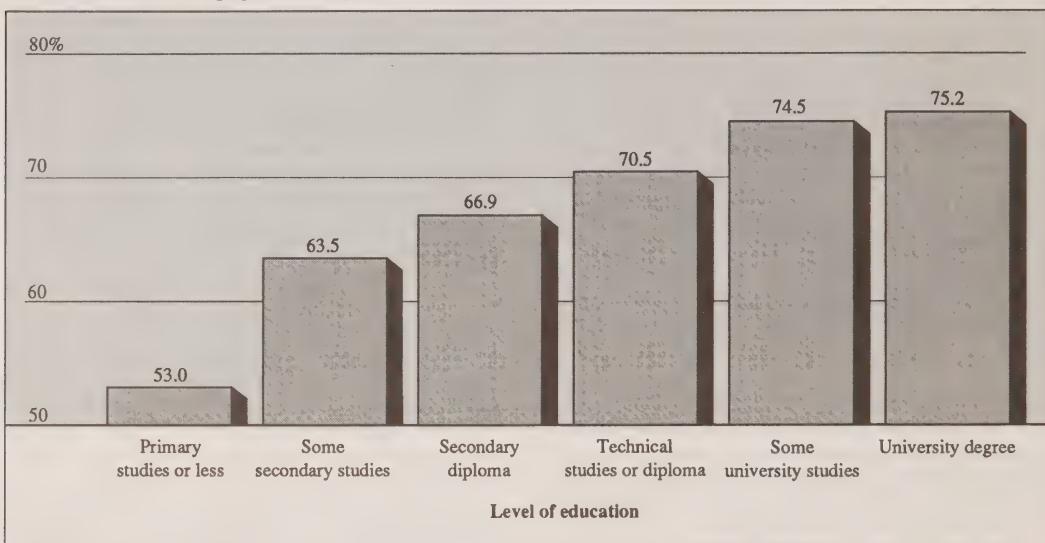
In the Francophone samples, significant effects of age were observed in several of the individual analyses of questions associated with the "quantity" and "management" factors. Older respondents were more likely to endorse higher levels of immigration and more services for immigrants; they were less likely to feel that there was too much immigration or that there were too many races and cultures.

In the Anglophone samples, younger respondents were more likely to advocate admitting anyone who wants to immigrate.

In both language groups, younger respondents were more tolerant of black/white marriages and showed greater levels of support for government pressure on South Africa. On the composite "tolerance" measure, however, this age effect only achieved statistical significance within the larger Anglophone sample.

Community Size

On the "management" factor composite measure, Anglophone respondents from larger communities were less restrictive in their attitudes. In the analysis of individual questions, they were more likely to favour increased immigration levels, more services for immigrants, and pressure on South Africa; they were less likely to feel that there was too much immigration; somewhat surprisingly, they were less likely to be tolerant of interracial marriage. In both

Chart 9-2**Proportion of Survey Respondents Approving of Black/White Marriages, by Level of Education, Anglophone Samples**

SOURCE Estimates by the Economic Council, based on the analysis of Gallup survey results.

language groups, respondents from larger communities were more likely to advocate admitting anyone who wants to immigrate.

Unemployment

On their own, higher unemployment rates were associated with less favourable attitudes towards immigration on the "quantity" factor composite measure in both language groups. This was reflected in the individual item analyses: among Anglophone respondents, high unemployment was associated with lower support for increased immigration and with a greater tendency to feel that there were too many races and cultures. In the Francophone samples, high unemployment was associated with the feeling that there was too much immigration, while a decrease in unemployment was associated with support for higher levels of immigration.

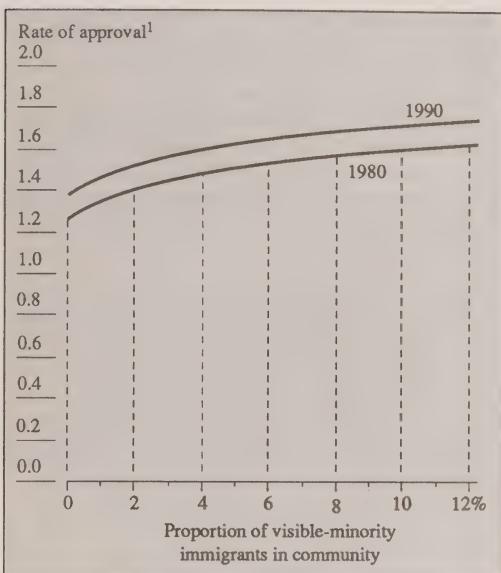
In the Francophone samples, high unemployment showed an association with greater tolerance for black/white marriages; among Anglophones, decreases in the unemployment rate were associated with the feeling that there was too much immigration. Both of these results are in the op-

posite direction of theoretical predictions and were fairly weak effects, which suggests that they may represent chance findings rather than real effects.

Proportion of Visible-Minority Immigrants

In the individual item analyses, in Anglophone samples, approval of black/white intermarriage and a lower tendency to feel that there were too many races and cultures were both associated with larger proportions of visible-minority immigrants residing in the community (an example is shown in Chart 9-3). This effect grew continuously as the proportion of visible minorities rose, but at a decreasing rate. A similar pattern was observed among Francophone respondents regarding support for pressure on South Africa and willingness to admit into Canada anyone who wants to immigrate. Also among Francophone respondents, feelings that there was too much immigration were stronger in communities with lower proportions of visible-minority immigrants.

Among Anglophones, visible-minority growth was associated with lower scores on the "tolerance" factor composite measure and with less restrictive attitudes

Chart 9-3**Estimated Approval Rates of Black/White Marriages, Canada, 1980 and 1990**

¹ Attitudes towards black/white marriages were assessed on a scale ranging from total disapproval (0.0) to total approval (2.0).

SOURCE Estimates by the Economic Council, based on data from Gallup surveys and Statistics Canada.

towards immigration, as measured by the composite measure for the "management" factor.

In the Francophone samples, the analyses of the composite measures did not include the effects of changes in the proportion of visible-minority immigrants in the community because the number of segments involved was too small. However, in the analysis of individual items, growth in the proportion of visible-minority immigrants was associated with less support for pressure on South Africa and with lower levels of approval of black/white marriage (both questions associated with the "prejudice" or "tolerance" factor). Visible-minority growth was also associated with less support for more services for immigrants and for letting into Canada anyone who wants to immigrate (questions associated with the "management" factor).

Interactions

Anglophone respondents living in communities with both high rates of unemployment and a high proportion of

visible-minority immigrants had more restrictive attitudes towards immigration ("management" factor composite measure) and, in individual item analyses, were less likely to admit into Canada anyone who wants to immigrate and more likely to feel there was too much immigration, than were respondents in communities with lower rates of unemployment or fewer visible-minority immigrants.

Similarly, Anglophones in communities with a high proportion of visible-minority immigrants and increasing unemployment were less likely to support increased immigration or increased services for immigrants than were respondents in communities with either fewer visible-minority immigrants or with unemployment rates that were not rising.

Among Francophones, respondents from communities where both unemployment and the proportion of visible-minority immigrants were increasing were more likely to feel that there was too much immigration than were respondents living in other communities.

Time Trends

Among Anglophones, respondents to more recent surveys were more likely to support increased immigration, to support pressure on South Africa, and to approve of black/white marriages. They were less likely to feel that there was too much immigration or that there were too many races and cultures.

Among Francophones, the only trend over time observed was a greater tendency in the more recent polls to feel that there was too much immigration.

Implications

A most important finding was the observation, on several measures, of trends over time. In the Anglophone samples, these trends were positive – that is, attitudes were becoming more favourable over the period covered by the surveys. However, in the Francophone data, the only statistically significant trend over time was negative, representing an increasing tendency for respondents to feel that there is "too much immigration." One implication of this finding is that policy decisions must take into account the fact that the climate of public opinion in Quebec differs from that in the other provinces.

There are recurring and reassuring themes, too, in the pattern of results concerning the effects observed in relation

to the proportion of visible-minority immigrants residing in the respondent's community. On questions associated with the "tolerance" factor, several results indicated a positive effect, with respondents from communities with higher proportions of visible-minority immigrants having more positive intergroup attitudes. Such results support the hypothesis that contact has positive effects.

There are two possible reservations to this reassuring picture of growing tolerance. First, growth in the proportion of visible-minority immigrants (as opposed to the level of this proportion) tended to be negatively related to attitudes, especially among Francophone respondents, suggesting that rapid growth may result in the perception of a threat. Second, on the measures of attitudes related to immigration, the effects of the proportion of visible-minority immigrants tended to interact with the rate, or with changes in the rate, of unemployment. Respondents from communities with both high proportions of visible-minority immigrants and either high levels of unemployment or a worsening employment situation tended to have relatively unfavourable attitudes towards immigration, compared with respondents from communities with either less severe unemployment problems or a lower proportion of visible-minority immigrants.

While at first glance the latter result may seem to represent prejudice resulting from economic threat, as predicted by realistic group-conflict theory, there are some reasons not to interpret it in this fashion. Specifically, the questions on which such effects occur are those dealing with immigration levels, with restrictions on who can immigrate, and with the provision of more services to immigrants, rather than questions dealing specifically with ethnically different people.⁷

A more plausible explanation of this observed interaction suggests that, for the Anglophone samples, these measures are functioning as fairly straightforward measures of attitude towards immigration in general. Bearing in mind that the proportion of visible-minority immigrants is almost perfectly correlated with the proportion of immigrants of all kinds, a very simple interpretation of these results is that in times of relatively high or rising unemployment, respondents tend to be less favourable towards immigration and the presence of larger proportions of immigrants in the community increases the tendency to see immigration as contributing to the problem of unemployment. After all, respondents from communities in which there are few or no immigrants are not likely to feel that no jobs are available because immigrants have taken them. Thus, according to this interpretation, the observed interaction would represent the combination of concern for employment opportunities

with greater proportions of immigrants having the effect of increasing opposition to immigration and greater numbers of immigrants of any ethnic origin.

Throughout the analysis, one variable that exerts very strong effects on attitudes pertaining to immigration and measures of prejudice is education. This supports the results of many previous studies. Given that the level of education is strongly associated with socioeconomic status, this finding is in line with the predictions of several of the theories regarding the origins of prejudice, discussed earlier in this chapter. It is also in keeping with the results of studies that suggest that education itself has a positive effect on intergroup attitudes [Guimond et al. 1989].

The change towards more positive attitudes among Anglophone respondents implies that even if the interaction between the proportion of visible-minority immigrants and unemployment rates did represent a hardening of attitudes towards ethnically different immigrants and not just towards immigration in general, the positive effects of factors such as increasing levels of education would seem to be leading to an overall positive trend in support for immigration. A note of caution must be sounded in this respect, however. The upward economic trend in Canada over the past decade may also be responsible, at least in part, for the positive trend in attitudes. Regardless of which factors are responsible, the observed interaction and the findings in this and other studies that unemployment rates on their own have a negative effect on public attitudes towards immigration, underline the need for effective public education programs to show Canadians that immigration does *not* contribute to unemployment.

Data on Anti-Semitic Incidents

To complement our analysis of the national survey data on the attitudes of the Canadian public, we looked for a data set consisting of measures of actual conflict. The aim was to investigate whether the size and growth rate of a minority group, in combination with changes in economic conditions, would affect the frequency of incidents of hostility towards that group.

While ideally we should have analysed an index of ethnic conflict of all kinds, the only nationwide index of this nature available for Canada consists of data on anti-Semitic incidents collected since 1982 by the League for Human Rights of B'nai Brith. Since the theoretical factors underlying anti-Semitism are generally the same as those underlying prejudice against other ethnic groups, it should be possible to extrapolate the results obtained from the B'nai Brith data to other forms of ethnic conflict.

The data file covered 615 incidents that occurred between 1982 and 1989, broken down by region, date, and type of incident. These data were combined with estimates of regional unemployment rates and with census data on the proportion of Jewish residents; the relations between these variables were then analysed.

In analysing an index of this nature – that is, the number of reported incidents of conflict – consideration must be given to the factors discussed earlier (see the section on "Interpreting the Trends"), which affect the interpretation of results on such measures. Both the presence or absence of targets (target availability) and possible variations in levels of reporting must be taken into consideration. Target availability is a direct function of the proportion of the population constituted by the target group. Therefore, in order to examine the relation between the different variables and the occurrence of anti-Semitic incidents, it is first necessary to weight the frequency of incidents by the proportion of Jewish residents in the community. However, while target availability can be considered in the analysis in this fashion, there is no equivalent analytical "quick fix" that will take care of the effects of variations in reporting levels. The only weapon in the research arsenal that can be brought to bear on this latter problem is a judiciously qualified interpretation of the results.

Results

The results of the analysis showed that there was a strong positive correlation between the raw frequency of anti-Semitic incidents and the proportion of Jewish residents in the region. This result would seem to confirm the influence of target availability.

While the uncorrected number of anti-Semitic incidents showed no significant change over time, there was evidence of an increase over time in the number of incidents reported, once the effects of the other variables (proportion of Jewish residents, unemployment rates, and so on) were taken into account. This result stands in sharp contrast to the positive trends observed in our analysis of the opinion-survey data, as it suggests that intolerance is increasing rather than declining.

It is, however, possible that this observed increase in the number of incidents represents a reporting artifact of the type discussed earlier – i.e., that it represents the effects of increased awareness of the interest of the B'nai Brith League for Human Rights in collecting such data, rather than a true increase in the level of anti-Semitism. Favouring this "reporting artifact" interpretation are the results that

obtain when the analysis is restricted to incidents involving some form of threat or violence (more serious incidents that are less likely to be subject to fluctuations in reporting levels). The results then show no evidence of a change over time, indicating that the trend over time found in the analysis of incidents of all types may be attributed to an increase in the reporting of less serious occurrences (see Appendix Table D-11). The fact that positive trends were observed in both our analysis of the opinion survey data and the results of a study on discrimination in hiring (reported later on in this chapter) also would favour interpreting the negative trend found here as the product of better reporting. Nonetheless, it is certainly a disquieting result that underlines the need for close monitoring of the situation.

One area in which the results of our analysis of the data on anti-Semitic incidents matched quite closely the results of the analysis of the opinion-survey data was that of the interaction between unemployment and the size of the minority community. Changes in the proportion of Jewish residents in the region had an effect in interaction with changes in the unemployment rate. In regions where both unemployment and the proportion of Jewish residents in the region were increasing, the number of anti-Semitic incidents was greater than it was where the Jewish community was not growing or where unemployment rates were not on the rise.

These last results lend support to the theories predicting that a rise in prejudice and discrimination is a consequence of increased economic insecurity. Coupled with the survey results, they underline the importance of economic conditions and unemployment rates as potential determinants of intergroup conflict.

Discrimination in Hiring in Toronto

The analysis of both the opinion-survey data and the data on anti-Semitic incidents presents a problem of interpretation. Both sets of data are correlational in nature – that is, they do not rule out the possibility that findings based on these data might be explained by some variable that is not considered in the analysis. For example, it might be argued that what appear to be the effects of education in the analysis of the survey data are actually the effects of socioeconomic status – a variable associated with education but not directly measured in those surveys.

This is an unavoidable problem with survey research. It does not invalidate the results, but it does force the researcher to acknowledge the possible presence of some unmeasured effects. Experimental research provides a much

greater degree of control over any such unmeasured variables, either preventing their effects or ensuring that they are random and do not systematically influence the study results.

The Council commissioned a study to provide experimental data relating to trends over time in the occurrence of discrimination [Henry 1989]. This study replicated a 1984 examination of employment discrimination in Toronto [Henry and Ginzberg 1985]. It had two parts, both involving actors playing the role of job applicants. One part consisted of in-person interviews and the other involved job enquiries over the telephone.

For the in-person part, equally qualified blacks and whites went to job interviews. The appointments were set within one hour of each other. The employer, who had a job open at the time, could choose either applicant, neither, or occasionally both. For the telephone part, done separately, a large number of jobs were selected from newspaper advertisements and other sources. For each job, four equally qualified persons would telephone to try to obtain an interview. The four persons were, respectively: Canadian-born with no "foreign" accent; European-accented; Caribbean-accented; and Indo-Pakistani-accented. Success or failure in obtaining an interview was recorded for each person for each job, and the results collected and analysed.

In the 1984 study, the in-person part found that whites were favoured over blacks with respect to job offers by a solid margin of 3 to 1. The telephone phase also found discrimination against accented callers, with white European immigrants being favoured over both West Indian and Indo-Pakistani callers.

Results

The 1989 replication shows one dramatic change. There was now no racial discrimination in job offers based on face-to-face interviews. Blacks and whites received equal numbers of job offers. Some discrimination in terms of treatment at the interviews, however, was still reported.

The results of the telephone test in 1989 are similar to those in 1984; callers with a foreign accent received less favourable responses than those with no detectable accent. This time, however, there was no difference in the number of interviews offered to West Indian callers and to Italian-accented callers, but both were offered more interviews than were Indo-Pakistani callers, and fewer interviews than were the unaccented callers.

Although the results of the in-person part of the 1989 study do not prove that racism has vanished from the job

market, they do provide strong evidence that racial discrimination in employment is decreasing. That is an important finding, as it strongly suggests that the growth in the visible-minority population is not leading to an increase in prejudice but rather, if anything, to a decrease.

The tight labour market in Toronto cannot account in any obvious direct way for the 1989 results: the employers who were tested had the possibility of choosing between equally qualified blacks and whites, and thus when they hired a black person, it was not because no white person with the same qualifications was available. Nonetheless, the impression that the tight labour market may have played *some* role is so strong that this point needs to be elaborated further.

One possibility is that several years of tight labour markets may have resulted in employers being forced to hire blacks at times when adequately qualified whites were not available. That experience may have shown that blacks could do the jobs without problems, contrary to expectations. This is the contact hypothesis again, in a new guise. If that explanation is correct, it reinforces, in an unexpected way, our earlier finding that there are significant interactions between high unemployment and prejudice, and between low unemployment and tolerance. However, it does not mean – unless employers collectively forget the lessons learned from hiring blacks in a low-unemployment world – that discrimination in hiring will return when job conditions turn less favourable. A second possibility, more charitable to employers, is simply that employers have gradually become more tolerant, just like the rest of Canadians.

The results of the telephone part of the study indicate that discrimination against immigrants still exists, although the basis of the prejudice appears to be ethnicity rather than race. There is no evidence of any change in the severity of the problem from the earlier study.

As well as indicating the presence of a trend towards less racial discrimination in hiring, the 1989 results complement the results of the study on income discrimination reported in Chapter 7. It will be recalled that these showed that there was no difference in earnings, in the 1986 census, between Canadian-born people and immigrants, that could be systematically related to colour. It is true that two particular visible-minority groups did worse than the native-born. Four other such groups, however, did as well as the native-born, as did immigrants who were not members of visible minorities.

Differences existed between immigrants who acquired their experience and qualifications abroad and those who arrived young enough to obtain purely Canadian experience

and qualifications. The former group took several years to catch up, but again there was no difference in this regard between a person who was a member of a visible minority and one who was not.

It is clear that employers value foreign experience, education, and qualifications less than they do experience, education, and qualifications acquired in Canada. Whether that differential evaluation is justified or not is not something on which our analysis casts any light. It may be prejudice, or it may be a true reflection of the facts. Either way, it is a disadvantage that immigrants in general face, not a disadvantage that is special in any way to visible-minority immigrants.

These results from the analysis of census data and those from the telephone part of the job discrimination survey suggest that it may be worthwhile to provide more information to employers on the precise degree of equivalence or otherwise of foreign experience and credentials. If discrimination against foreign-acquired experience and qualifications does exist, this might help to eliminate it.

Conclusions

With regard to the level of immigration, the literature review and our research results provide little indication of a backlash or of an increase in prejudice as a result of the growing proportion of visible-minority immigrants in Canada. On the contrary, the results tend to indicate that levels of prejudice are diminishing and that contact is leading to more positive attitudes.

In our analysis of the opinion-survey data, we found evidence of increasing tolerance over time. There was also evidence that the proportion of visible-minority immigrants residing in the community was positively related to tolerance and to attitudes towards immigration. Similarly, in the study of discrimination in hiring, there was evidence of a substantial improvement between the results of the original

study in 1984 and those of the replication in 1989. Furthermore, the results of the analysis of data on the income of immigrants, presented in Chapter 7, are reassuring in that they do not suggest that discrimination causes serious problems in that area (with perhaps the exception of one or two specific groups of immigrants).

Overall, there is no indication that maintaining or gradually raising immigration levels nationally will increase the potential for conflict. Five caveats must be added, however: 1) the Quebec situation is different, and increased immigration to that province may not have the same effects as elsewhere in Canada – a question to which we shall return in Chapter 10; 2) should a very severe recession or depression occur, conflict would remain a possibility; 3) it would be dangerous to generalize too far beyond the range of our samples; in particular, our results will likely hold for some increases in the proportion of visible minorities, but we need to monitor carefully what happens if we move significantly beyond the range of proportions present in our data; 4) the analysis and results were based on limited data and limited research; more of both are needed; 5) the attitudes of the members of minority groups towards the majority groups and their level of satisfaction with life in Canada have not been adequately assessed.

By admitting that further research is needed, we do not wish to cast doubt on the validity of our findings. We simply want to stress that the areas of prejudice and intergroup conflict are exceedingly complex and will require many decades of research before the final answers to all of the important theoretical questions are known. And, given the importance of the topic, it is incumbent upon us to advocate that such research continue. Nevertheless, the findings presented here are based on the best evidence currently available and, in our opinion, are reliable. This applies especially to the principal conclusion that there is a trend over time towards greater tolerance despite (if not because of) the growth in ethnic diversity in the Canadian population, since that result was evident both in the analyses of the poll data and in the study on discrimination in hiring.

10 Diversity and Multiculturalism

What is the social impact of Canada's ethnic and cultural diversity? How have Canadians policymakers responded to it? What are the costs and benefits of the policy of multiculturalism, with its aims of maintaining cultural differences, when compared with policy alternatives that are more assimilationist in nature? To what extent are the policies that have been adopted to manage Canada's ethnic diversity likely to be effective in maximizing the benefits and minimizing the costs associated with ethnic diversity? These are the questions that we attempt to answer in this chapter, in which we look, first, at the costs and benefits of ethnic diversity, and, second, at the management of diversity.

Ethnic Diversity

Canada is already an ethnically diverse society, and that diversity is growing. We cannot return to a society made up of towns and villages in which the Anglo-Saxon, Celtic, or French tradition was unchallenged. We can, however, allow diversity to increase more rapidly or more slowly, and we could conceivably keep it constant by stopping further immigration. These three options are policy choices that can be made on the basis of the available evidence. On the other hand, a policy of selecting immigrants by ethnicity or by country of origin is not an option that merits consideration, as it would be morally unacceptable to the great majority of Canadians.

The Council has therefore attempted to examine the costs and benefits of ethnic diversity. Chapter 9 dealt implicitly with those costs in terms of the likelihood that prejudice would lead to social conflict. One of the attitudes that we found to be strongly associated with prejudice was an opposition to immigrants maintaining their distinct culture and a desire that they do more to blend in with the larger society. Both the results of various polls and individual representations to the Council suggest that a substantial number of Canadians feel that the burden of accommodation falls too much on the shoulders of the native-born and not enough on the shoulders of the immigrants. The relevance of this will become apparent when we discuss policy responses to diversity.

Turning to the benefits of diversity, a number of different favourable effects have been postulated. They include the positive influence exerted by the industriousness of

immigrant students and entrepreneurs; benefits from healthier cuisines; the attraction of cities made more cosmopolitan by immigrants from diverse cultural origins; greater export penetration by firms with multilingual, multicultural salesmen and managers; the beneficial effects of having to spell out our human-rights commitments to protect immigrants; and the greater creativity and flexibility of diverse, as opposed to homogenous, societies.

The value of increased ethnic diversity remains largely unproven, however. Neither a review of the literature nor any of the research commissioned by the Council was able to provide documented evidence of significant advantages [Berry 1990; McAll 1990]. Only minor advantages – the attraction of cosmopolitan cities such as Montreal, Toronto, and Vancouver, for example – can be demonstrated. The more significant societal gains from cultural and ethnic diversity remain speculative. The economic success of a culturally homogenous country such as Japan certainly suggests that ethnic diversity is not essential to a society's well-being, and few would argue that Tokyo is a drab, boring city.

Nevertheless, basic psychological research does suggest that a diverse society may have advantages over a homogeneous one. It shows that greater complexity of the social environment has positive effects on individual emotional well-being and on the development of various skills. It also indicates, however, that these effects diminish in size as complexity increases, eventually reaching a point where they become negative.

For example, both very simple and very complex environments will have relatively negative effects on skill development, compared with the effects of a moderately complex learning environment. Individuals who only practice tasks that they have already mastered or tasks that are far too difficult for their current level of ability will not develop skills as quickly as those who spend the same amount of time working on tasks of an intermediate level of difficulty, which are challenging but not so hard as to guarantee continual failure.

There is a similar relation between the rate at which the environment changes and the individual's emotional well-being. Both unchanging environments and extremely

rapidly changing environments have negative effects on well-being relative to environments that change at a more moderate pace.

We may therefore expect individuals to benefit, in terms of emotional well-being and the development of social skills, from the more complex social environment that ethnic diversity and change provide. But there will be upper limits beyond which no further gains will accrue and losses will result. Unfortunately, there is at present no empirical evidence that enables us to estimate the magnitude of either positive or negative effects, or of the levels of social complexity at which the effects would change from positive to negative.

A similar situation exists with respect to the effects of adapting social institutions to meet the needs of a culturally more diverse population. While some level of modification will result in increased overall flexibility, too many modifications would be expected to lead to inefficiency. An example would be the employment of bank tellers capable of speaking languages other than English or French. While increased efficiency would result from employing one or two tellers who speak Chinese at a branch serving a district with a substantial Chinese-speaking community, losses would result from a policy that required every branch to employ tellers able to serve the public in all of the immigrant languages. Again, there appears to be no empirical research that would enable us to determine at what point the gains in flexibility would be offset by the losses in efficiency.

We conclude that diversity probably generates benefits but that caution is needed with respect to the rate at which diversity increases.

Canadian Policies

Ethnic and cultural diversity is not new, but it poses problems for the nation-states that have developed in the industrialized world. Different nation-states have dealt with it in different ways. In this chapter, we examine the evolution of policy at the federal level and within the province of Quebec. We then look at how these two sets of policies fit into the spectrum of policies governing the relationships between immigrant and host communities.

Multiculturalism Policy

Canada's cultural policy towards immigrants is based on what is known as the "multiculturalism assumption" [Berry et al. 1977]. This refers to the proposition, in the statement on multiculturalism policy made in 1971 by then Prime

Minister Trudeau, that a person's confidence in his/her own individual identity and place in the Canadian mosaic facilitates his/her acceptance of the rights of members of other groups to have their own place in Canadian society:

National unity if it is to mean anything in the deeply personal sense, must be founded on confidence in one's own individual identity; out of this can grow respect for that of others and a willingness to share ideas, attitudes and assumptions. A vigorous policy of multiculturalism will help create this initial confidence [House of Commons Debates, 8 October 1971, p. 8545].

One of the primary motivating forces underlying the formulation of the multiculturalism policy was the response of established ethnic groups, largely in western Canada, to the Royal Commission on Bilingualism and Biculturalism. While these ethnic groups were willing to accept bilingualism – that is, the determination of French and English as the country's two "official" languages – they balked at the suggestion that Canada be viewed as a bicultural country, insisting that their cultural heritages were equally worthy of respect.

The 1971 policy statement included three major themes:

- the elimination of societal and institutional barriers to the full participation and contribution of ethnic minorities;
- the support and encouragement of the various cultural and ethnic groups; and
- the encouragement of the sharing of cultural expression and values with other Canadians.

These policy goals can be described as: a) the promotion of other-group acceptance and tolerance; b) the promotion of the maintenance and development of cultural heritage; and c) the promotion of intergroup contact and sharing [Berry 1990]. To accomplish these goals, a number of programs were established under the authority of the Secretary of State to provide funding for various community and cultural organizations and projects.

In 1987, the passage by Parliament of the Canadian Multiculturalism Act enshrined the policy in legislation and set the stage for a shift in emphasis. The primary focus of the Act was the need to ensure that our social institutions would reflect and include the ethnic diversity of the Canadian population.

On 30 May 1988, Gerry Weiner, the minister responsible for multiculturalism, released a statement entitled "New Directions," in which three new programs were announced, replacing the seven programs that had been in effect until

then. The new programs were: 1) Race Relations and Cross-Cultural Understanding, "to promote among Canadians and in Canadian institutions appreciation, acceptance and implementation of the principles of racial equality and multiculturalism"; 2) Heritage Cultures and Languages, "to assist Canadians to preserve, enhance and share their cultures, languages and ethnocultural group identities" (this program replaced several programs under the previous system: Cultural Enrichment, Writing and Publications, Canadian Ethnic Studies, and Performing and Visual Arts); and 3) Community Support and Participation, "to support the full and equitable participation in Canadian life of individuals and communities from Canada's racial and ethnocultural minorities" (replacing the old Group Development, Citizenship and Community Participation, and Intercultural Communications programs).

While the policy enunciated in 1971 included the objective of promoting other-group acceptance and tolerance, the changes effected in 1988 gave much more emphasis to this goal. The activities under the new Race Relations and Cross-Cultural Understanding Program (described in the 1989-90 Estimates) include supporting programs of institutional change in education, law enforcement, the media, health and social services, labour organizations, municipal government, and other institutions, and helping them to adapt to the multicultural reality of Canadian society. Public education and research and training activities are supported, along with efforts by community-based organizations and coalitions to promote equality and cross-cultural understanding. Examples of such activities include providing assistance to the Federation of Canadian Municipalities to develop resource materials for member municipalities and to convene a conference focusing on community and race relations; and sponsoring commercials describing the costs of prejudice.

The "New Directions" announced in 1988 actually were not that new. The changes in the orientation of the department's programs had begun much earlier. In the first decade of the multiculturalism policy, program activities had largely been centred on the needs of established ethnic groups, such as the Ukrainian and Italian communities. By the early 1980s, however, the growth of other ethnic communities forced a shift in focus.

The promotion of institutional change became a priority, in order to help Canadian institutions to adapt to the presence of these new groups. Also, a Race Relations Unit was set up in 1981, reflecting the fact that many of the new ethnic groups were "visible minorities." In one sense, the 1988 announcement of the Race Relations and Cross-Cultural Understanding Program was simply a formal rec-

ognition of the activities of the Race Relations Unit, which had been operating through other programs, chiefly in the areas of community participation and group development. However, the increased level of funding of these activities did represent a real increase in emphasis on fighting prejudice and promoting tolerance.

Table 10-1 lists multiculturalism expenditures by program from 1984-85 to 1990-91. It shows the shift from programs aimed at maintaining "heritage" cultures to programs promoting tolerance. The objectives of the multiculturalism policy have been broadened to emphasize issues of relevance to all Canadians without abandoning the original aim of providing support and reassurance to ethnic groups.

With respect to cultural heritage, the multiculturalism policy is aimed at helping ethnic groups to maintain features of their traditional culture rather than encouraging the maintenance of full cultural systems [Berry 1990]. Compatibility with Canadian customs is important. For example, speaking heritage languages at home and at social functions and practising different religions are cultural features that

Table 10-1

Expenditures¹ on Three Multiculturalism Programs, Canada, 1984-85 to 1990-91

	Program			
	Race relations ²	Heritage culture ³	Community participation ⁴	Total
		(Per cent)		(Millions of dollars)
1984-85	...	50	50	18.4
1985-86	...	46	54	16.1
1986-87	...	48	52	17.8
1987-88	...	40	60	19.6
1988-89	14	37	49	22.1
1989-90	24	37	38	27.1
1990-91	27	22	51	27.0

1 The figures exclude one-time payments of \$12 million to the National Association of Japanese Canadians in 1988-89 and \$24 million to the Canadian Race Relations Foundation in 1990-91.

2 Includes the Race Relations and Cross-Cultural Understanding program (established in 1988).

3 Includes the Heritage Cultures and Languages program, as well as the former Cultural Enrichment, Writing and Publications, Canadian Ethnic Studies, and Performing and Visual Arts programs.

4 Includes the Community Support and Participation program, as well as the former Group Development, Citizenship and Community Participation, and Intercultural Communications programs.

SOURCE Based on data from Multiculturalism and Citizenship Canada.

can usually be transported to Canada without difficulty. But some cultures have traditional features – such as the treatment of women as intrinsically inferior or intolerance in matters of ethics, politics, or religion – that conflict with Canadian norms and must be relinquished by immigrants to Canada. Hence, the Multiculturalism Act of 1988 speaks of the “evolving expressions” of the diverse cultures and of preserving other languages while “strengthening the status and the use of the official languages.”

Moreover, the programs funded under the Act have not been, and are not now, confined to maintaining the heritage of minority groups. As well as initiatives to benefit all Canadians through the sharing of minority-group cultural heritages, the programs also include actions taken to maintain the cultural heritages of the majority or host groups. The funding of a chair in Acadian Studies is an example. More generally, programs aimed at minimizing conflicts arising from prejudice and discrimination benefit society as a whole. In addition, the policy’s recent focus on promoting respect for human rights – the rights of all Canadians and not just those of members of minority groups – is evidence of the broadening of the policy’s aims. While it may have been a fair approximation to have described the policy as existing solely for the benefit of minority ethnic groups during the 1970s, its evolution during the 1980s has resulted in a broadening of its aims and impact.

Public Support for Multiculturalism

The success of a policy such as multiculturalism is, of course, greatly facilitated when it has the support of the population at which it is directed. In 1974, a major national study examined public attitudes to multiculturalism [Berry et al. 1977]. The results showed that the majority of the Canadian population supported the policy. For example, 64 per cent of respondents agreed that “it would be good to see all the ethnic groups in Canada retain their cultures,” compared with 19 per cent who disagreed and 17 per cent who did not know. Similarly, 62 per cent of respondents disagreed with the statement: “It is best for Canada if all immigrants forget their cultural background as soon as possible,” while only 26 per cent agreed with it.

This last item was also included in a survey carried out by Decima in 1979. The results suggested that support for the policy remained fairly strong over the years. The proportion of respondents favouring cultural maintenance and disagreeing with the proposition that immigrants should forget their cultural background was 68 per cent. Further evidence of continuing strong support comes from a survey conducted by Decima for *Maclean's* magazine (1 January

1990), which found 68 per cent of respondents endorsing Canada’s multicultural approach.

The responses to another item in the same survey show that tolerance is highly valued by Canadians. When asked to select the adjective that best described the “ideal Canadian,” the most frequently chosen alternative was “tolerant” (38 per cent). This was in contrast to the results on a similar question in a survey conducted in the United States, in which “tolerant” finished a poor second (21 per cent) to “independent-minded” (52 per cent).

These various survey results suggest that, while a significant minority is unfavourable towards multiculturalism, the majority of Canadians support it, and there is no evidence that this level of support is falling. The results further imply that the policy accurately reflects the importance that Canadians attribute to tolerance.

This widespread public support is reflected in various pieces of legislation and in the existence of government departments and commissions at the provincial and municipal levels, as well as at the federal level. Examples are the Alberta Multicultural Commission and Quebec’s Ministry of Cultural Communities and Immigration.

The Quebec Perspective

Immigration represents both an opportunity and a threat to Quebec. The province’s birth rate dropped precipitously in the late 1960s. This, as we saw in Chapter 6, will lead to a decline in its population unless there is an increase in the level of immigration to Quebec or in the proportion of immigrants arriving there who will choose to remain in the province. But the traditional tendency of immigrants to learn English rather than French has led many in Quebec to perceive them as a threat to the province’s cultural identity.

The primary mission of Quebec’s Ministry of Immigration, established in 1968, was to facilitate the adjustment of immigrants to French-Canadian society. The underlying principle was defined 10 years later as “cultural convergence” by Camille Laurin [1978], then Minister of State for Cultural Development. This approach sees the diverse cultural elements present in the province as converging towards one principal cultural tradition, whose locus is the French language.

In 1981, the name of the ministry was changed to Cultural Communities and Immigration (MCCI). At the same time, the Minister of State for Cultural Development released an action plan entitled *Autant de façons d'être Québécois* (Many Ways of Being a Quebecer). Its objec-

tives were threefold: 1) to assure the maintenance and development of the unique character of the cultural communities; 2) to increase francophone Quebecers' awareness of the contribution of the cultural communities to a common heritage; and 3) to facilitate the integration of members of the cultural communities into Quebec society, particularly sectors in which they are underrepresented, such as the public service.

The name change and the action plan signalled the beginning of a recognition that Quebec could not assimilate into its traditional culture all of the immigrants it believes are needed for its economic development and that many of the immigrant communities expected public support for their own cultural activities. This recognition did not come easily to the majority of Francophones in Quebec, many of whom believe that being a Quebecer requires support for, and affirmation of, the French culture. That may explain, at least in part, the differences in responses between French and English respondents to the public-opinion surveys analysed in Chapter 9.

The tension between the principle of cultural convergence and the policy of cultural recognition or interculturalism underlies many of the immigration issues that have surfaced in Quebec over the past 10 years. The concentration of immigrants in Montreal, for example, increases Quebecers' anxiety lest the city lose its French character. The pursuit of independent immigrants, preferably entrepreneurs and investors, of whatever ethnic origin conflicts with the desire to attract Francophone immigrants who may belong to neither category. Thus the ministry has been torn between giving priority to finding Francophones who want to immigrate or to the "francisation" of business immigrants, and – given Montreal's high unemployment rate – between emphasizing adaptability or employability [Bonin 1990].

The MCCI was one of the few Quebec ministries to see its budget increase in the late 1980s – from \$29 million in 1986-87 to \$40 million in 1988-89, with the prospect of further increases in 1990-91. In addition to participating very actively in joint efforts with the federal government in the selection of immigrants and to its regular language training and settlement activities, the department disburses funds to cultural communities under 13 programs. They include programs to maintain immigrants' cultural heritages, to promote cultural sharing and integration, and to foster adjustment (support for adaptation activities, for reception and adaptation, for social and health services, and for special community works, projects, and initiatives).

Table 10-2 lists MCCI expenditures in these areas over the period from 1983-84 to 1988-89. A new program

(*Rapprochement*), created in the 1987-88 fiscal year, funds projects of an intercultural nature that are designed to reduce cultural and racial prejudice. There is a striking parallel between the implementation of this new program and the creation, the following year, of the new Race Relations and Cross-Cultural Understanding program at the federal level. Not only did both governments establish programs expressly directed at combatting prejudice, but examination of the proportion of expenditures suggests that both paid for the new programs the same way – that is, by reducing the monies available to fund heritage-culture maintenance.

The Quebec government has always opposed the federal multiculturalism approach on the grounds that it undermines the traditional cultural duality of Canada and that multiculturalism programs fail to recognize Quebec's distinct status as a French-language society. Yet the province appears to be moving away from cultural convergence and towards a policy approach similar to that of the federal government – i.e., one that recognizes the fact that cultural communities can legitimately attract native-born Canadians and become a continuing part of Canadian society.

Table 10-2

Expenditures by the Ministry of Cultural Communities and Immigration on Three Immigration Programs, Quebec, 1983-84 to 1988-89

	Program			(Millions of dollars)
	Rapprochement ¹	Cultures d'origine ²	Adaptation ³	
1983-84	...	30	70	3.6
1984-85	...	39	61	2.9
1985-86	...	34	66	3.4
1986-87	...	36	64	2.6
1987-88	9	27	64	2.9
1988-89	13	21	66	3.6

1 Includes aid to intercultural organizations and projects, with the objective of reducing prejudice.

2 Includes programs funding heritage language teaching, cultural community activities, cultural community media, organizations, and community centres.

3 Includes programs funding groups who welcome and help new immigrants adapt, groups providing access to health and social services, groups with short-term projects in the adaptation area, groups needing access to community facilities and services, special projects, and job-creation programs.

SOURCE Ministère des Communautés culturelles et de l'immigration, *Rapport annuel*, various years.

However, Quebec's preoccupation with cultural identity and with the affirmation of its culture have led it to spell out the issues more clearly than many other governments in Canada. Thus, in its recent White Paper, *Au Québec : pour bâtir ensemble*, the MCCI has developed the notion of an explicit moral contract to be concluded between immigrants and native-born Quebecers. In such a contract, Quebec would declare itself to be a French-speaking, pluralist society, respectful of different cultures; immigrants would acknowledge the Canadian and Quebec Charters of Rights; the expectation that both native-born and newcomers will contribute to building the Quebec of the future would be stated. While such a statement of principle may appear superfluous in the light of the many other official texts that already exist, the anxieties frequently expressed by members of both groups – native-born and newcomers – suggest that it may serve a useful purpose.

Recent work suggests, however, that Quebec's settlement programs have not caught up with developments on the policy front [McAll 1990]. While numerous community organizations play an important role in helping immigrants to settle in and adapt, the efficacy of most of their activities, with the exception of the cultural ones, is hampered by inconsistent or inadequate funding. McAll [1990] has suggested that the preoccupation with culture has obscured the need for basic economic and social services. These needs are reflected in some of the recommendations of the recent White Paper.

A bimodal distribution of immigrants in the labour force, with concentrations at the upper and lower ends of the occupational scale, tends to isolate them from the Francophone majority and is thus an impediment to their integration. At the same time, the residential pattern of immigrants tends in some cases to favour their association with the Anglophone community. The continued structure of the educational system along religious lines on the island of Montreal also constitutes a barrier to easy integration within the majority Francophone community. Most immigrants are not Catholics and consequently choose the non-denominational "Protestant" school boards, which have traditionally been run by Anglophones.

There is some evidence that blacks in Montreal spend disproportionate amounts of their income on housing, are occupationally "ghettoized," experience very high youth unemployment, and suffer discriminatory treatment by the police [McAll 1990]. Some immigrant groups face similar problems in Toronto and Vancouver, but we mention the Montreal situation because of the ambivalence of Franco-phone respondents to the survey questions discussed in Chapter 9. The complexity of the situation in Quebec underlines the need to proceed cautiously and gradually with any increase in the level of immigration.

Policy Options and Their Consequences

The host society's objectives regarding the relationships between the immigrant communities and the larger community will affect whether and how immigration alters the potential for intergroup conflict.

Berry [1974] identified four types of relationship: segregation, marginalization, assimilation, and integration. These relationships are characterized by the extent to which immigrants maintain their cultural identity and by their level of participation in the host society. Segregation allows the immigrant community to maintain its cultural identity but forces it to live apart for activities other than work, as in South Africa. Marginalization deprives the community of its cultural identity without allowing it to become part of the host's cultural entity. Assimilation entails relinquishing cultural identity and adopting that of the host society, while integration involves maintaining cultural identity but participating fully in valued relationships with the host society.

Canada's policy of multiculturalism has been an attempt to follow the integrationist approach, whereby immigrants are full participants in society but retain their cultural identity. Quebec's cultural policy can also be categorized as integrationist in nature, given its objective of maintaining the unique character of the cultural communities and funding programs to that end, along with programs promoting cultural sharing and adaptation. There may be, however, a public perception that Quebec has an assimilationist policy because of the extensive publicity that surrounds the language issue in that province. Since, psychologically, perception is often more important than reality, such a distortion of the Quebec policy's image might have far-reaching effects.

Two of the alternatives to the multicultural or integrationist approach – segregation and marginalization – are morally unacceptable to the vast majority of Canadians. Thus an evaluation of cultural policy alternatives boils down to a comparison of the potential benefits and costs of integrative versus assimilative strategies [Berry 1990].

Integration vs. Assimilation

Canada's policy of multiculturalism is an integrationist method of managing intergroup relations, avoiding both the assimilationist and segregationist extremes, and balancing collective and individual rights. The policy is a sign of society's concern for the quality of human relations in Canada. It indicates official endorsement of a policy of tolerance

and improves relations by fostering a sense of cultural security among immigrants. This last aspect of the policy stands in contrast to the alternative assimilationist strategy, which conveys an implicit message that the immigrant's culture, language, and identity are unacceptable to the host society.

The contact hypothesis [Amir 1969] enables us to assess the differences between integration and assimilation as regards their effects on the potential for ethnic conflict. This hypothesis tells us that contact between different ethnic groups results in positive rather than negative attitudes, if certain conditions are met.

One of those conditions is equal status interaction in cooperative endeavours: situations in which members of different groups work together as equals will tend to promote positive attitudes. The multicultural approach, with its celebration of the immigrant's cultural heritage, promotes equality of status, while the assimilationist approach, through its rejection of that heritage, implies that the immigrant is inferior.

A second condition postulated by the contact hypothesis is that ethnic identity must be "salient" – that is, that it must be perceived, in this case, by native-born Canadians. If it is not, they will not apply the positive experiences of contact with a member of an ethnic group to their attitude towards other members of that group. The assimilationist approach, by pushing the immigrant to get rid of, or to conceal, distinguishing ethnic characteristics, acts to reduce the salience of ethnic identity. The multicultural approach, on the other hand, enhances salience by promoting the preservation of those characteristics.

Is the contact hypothesis valid? That is, will the positive effects promoted by the maintenance of ethnic differences through a multicultural approach outweigh any costs in terms of discrimination and conflict that might be avoided by a reduction of differences by means of an assimilative strategy?

Kalin and Berry [1982] found evidence of positive "contact" effects in Canada in a study showing that attitudes towards different ethnic groups were more favourable in areas where there were larger numbers of members of such groups. Those findings are strongly reinforced by the results of our own analysis of opinion-survey data, reported in Chapter 9.

The continuing high levels of ethnic conflict in countries that follow assimilationist approaches, such as France and

the United States, may well be evidence of the ineffectiveness of those approaches. It is also noteworthy that Australia has recently moved away from its former assimilationist approach and towards the Canadian model of multiculturalism.

Assimilationist policies are, in any case, unlikely to reduce the potential for social conflict by reducing ethnic differences. The failure of such policies to eliminate interethnic tensions is attributable, in part, to the fact that assimilation runs counter to a fundamental psychological need for social distinctiveness and, in part, to the impracticality (in the case of religious affiliation) or the impossibility (in the case of characteristics such as skin colour) of eliminating such differences. In any event, announcing a policy change from a multicultural approach to an assimilationist one could well increase the potential for conflict by arousing strong opposition within the ethnic communities.

Minority-Group Reactions

Another reason why integrative strategies will tend to be more effective than assimilative strategies in reducing the potential for conflict has to do with their effects on the reactions of minority groups to discrimination. Violent reactions to discrimination, on both the individual (crime) and group (riot) level, are the result of giving up on the social system. Research shows that such reactions are less likely to occur as long as there is a perception that the discriminatory barriers are not absolutely insuperable [Wright et al. 1990]. Minority-group members may perceive discrimination but are less likely, individually or as a group, to try to overcome those barriers by force as long as they are aware that some members of their group have managed to achieve success by working within the system. In other words, riots are much less likely as long as at least some minority-group members are perceived to have "made it."

Ironically, the assimilationist approach has potentially detrimental effects in this regard – effects that increase with the success of the assimilative process. The better assimilated the successful minority-group members are, the less effectively they signal to those who are not yet successful that they can also reach the top of the ladder. The perfectly assimilated immigrant is, of course, indistinguishable from majority-group members and has virtually no way of signalling to other minority-group members that success is possible. Even in cases where skin colour marks the ethnic difference, if the successful individual displays other cues that indicate cultural assimilation, each one of those cues decreases the probability that the unsuccessful minority spectator will identify with him or her. For example, black

ghetto kids will not identify with blacks in pin-striped suits who talk like white businessmen to anywhere near the same extent as they would with someone who was successful but still dressed and talked "like a brother."

A multicultural approach, with the resulting increased salience of ethnic identity, will increase the visibility of successful minority-group members and hence the ability of unsuccessful members of those groups to identify with them. This will lessen the probability of the unsuccessful minority-group members giving up on the system and resorting to violent acts such as riots and crime.

While a direct causal link would be difficult to establish empirically, this argument is supported by Canada's record with regard to such violence. Since the inception of the policy of multiculturalism, virtually the only ethnic incidents at the group level have involved aboriginal peoples who are not covered by the policy and have been marginalized by our society. As far as criminal activity is concerned, a study [Anderson 1990] conducted on the Council's behalf in Richmond, British Columbia, shows no link between immigrants and crime; other research carried out at the national level finds that the immigrant population has a lower rate of criminal activity than the native-born population [Samuel and Faustino-Santos 1990].

Accommodation Effects

Another way in which assimilative and integrative strategies will differ in their effects on the potential for conflict is through what is known as accommodation effects. Psychological research has shown that a perception that another individual has modified his/her behaviour to become more like the perceiver leads the latter to like the former more [Giles et al. 1973]. Suppose two fluently bilingual individuals, one Francophone and the other Anglophone, are conversing. The Anglophone would like the Francophone more if the latter spoke in English, even though the former's command of French is such that the language used has no effect on comprehension. This greater liking is considered to be due to one individual perceiving that the other has made a behavioural accommodation.

A similar type of effect occurs when one individual's expectation of dissimilarity is not fulfilled by the other's behaviour. For example, one study found that when the listener expected the speaker to have an accent but instead heard unaccented speech, there was an unexpected increase in liking.

Accommodation effects under multicultural and integrative policies differ from those which obtain under assimilative

policies. Accommodation effects associated with assimilative policies will make the majority group's attitudes more positive by promoting accommodation on the part of immigrants. Multicultural policies, on the other hand, will promote more positive attitudes by immigrants towards the host society, since they constitute accommodation by the host society towards the immigrants. Thus changes in policy towards a more multicultural approach and away from an assimilative orientation will weaken the accommodation effects on majority-group attitudes towards immigrants but will strengthen accommodation effects on the immigrants' attitudes towards their hosts. Conversely, moving towards a more assimilative and less integrative policy will reduce the strength of accommodation effects on the immigrant's attitudes while making the majority group's attitudes more positive. These opposite consequences of policy changes may be represented as follows:

	Change towards assimilation	Change towards integration
Attitude of hosts towards immigrants	Positive effect	Negative effect
Attitude of immigrants towards the hosts	Negative effect	Positive effect

The strength of the accommodation effects will be affected by the degree to which the perceiver is aware of the accommodation. For example, the attitudes of members of the majority group will not be affected by immigrants learning their language unless the former are aware of it. Accommodation effects will also be weakened by any perception that the behaviour is not voluntary.

Evaluating the Options

In evaluating the merits of possible policy modifications, consideration should be given to the effects of such changes on all of the groups involved, to the different ways in which a policy change will have effects, and to possible alternative ways of accomplishing the goals in question.

Differential Effects

Negative attitudes held by either group can create conflict. In attempting to manage the effects of ethnic diversity on the potential for conflict, policymakers must therefore consider the impact of their choices on the attitudes of both the majority group and the various minority groups. As we

have seen in our examination of accommodation effects, some of the effects of a policy decision may be in opposite directions – positive on one group but negative on the other.

This implies that the attitudes of both groups must be assessed and that care must be taken that a policy designed to promote more positive attitudes on the part of one group not be implemented at the cost of conflict resulting from the increased negative attitudes of the other group. In this regard, while we have evidence from the research described in Chapter 9 of improvements in majority-group attitudes, there is a marked absence of such information with respect to the attitudes of minority-group members. From this perspective, it would appear inadvisable to implement policy changes with the potential to impact negatively on minority-group attitudes without first assessing their current status.

Multiple Effects

While the discussion in the preceding sections does not encompass all of the factors that affect the potential for intergroup conflict, it does provide some illustration of the multiple ways in which policy choices impact on that potential. Policy choices must be based on a comprehensive analysis of their effects that will include their different levels of impact, as well as the impacts on all the groups affected.

Thus, while the consequences of a change towards a more assimilative policy might be straightforward in terms of the direction of the accommodation effects, having a positive impact on the attitudes of majority-group members and a negative impact on the attitudes of minority-group members, the other impacts of the policy change would also need to be considered. A change to a more assimilative policy might weaken the positive effects on majority attitudes of the official endorsement of tolerance; it might have a negative impact on those same attitudes because of connotations regarding the unacceptability of the immigrant's culture and identity; and it might weaken positive contact effects on majority attitudes towards immigrants. In addition, a more assimilative policy might have further negative impact on minority-group attitudes by reducing the ability of successful group members to reassure the less successful that the system can work for them too and by weakening the immigrants' sense of cultural security. Thus a change towards a more assimilative policy could well have a negative overall impact on majority-group attitudes and a very negative impact on minority-group attitudes.

Alternative Approaches

As well as considering the overall impact of any change to multiculturalism policy, alternative means of accom-

plishing policy objectives should also be considered. Other measures such as education can be used to promote majority-group attitudinal change. There are fewer alternative measures to promote minority-group attitudinal change. The alternatives that do exist will be less effective with minority groups than with majority groups because of the difference in the former's level of integration and thus the difference in the degree to which they are subject to mechanisms of social control. For example, a program using newspaper advertisements to promote more positive intergroup attitudes might well be less effective in changing minority-group members' attitudes because of language barriers and lower readership levels.

Multiculturalism policy is one of relatively few mechanisms available not just to change the attitudes of minority-group members but, in so doing, to further their integration with society. To weaken the effectiveness of this tool in order to make use of the dubious efficacy of assimilative strategies as a means of promoting more positive majority-group attitudes would only make sense if there were strong indications of a crisis caused by the negative level of the majority-group attitudes. Otherwise, alternative measures to change majority-group attitudes should be employed. At the moment, there are no indications that such a crisis is at hand.

Another approach to fostering more-positive attitudes on the part of both majority and minority groups would involve an increase in the strength of accommodation effects by raising the levels of awareness of the extent to which both groups accommodate to each other. The moral contract proposed by the Quebec government might be an example of this approach. While not necessarily involving any change in the extent to which either group accommodates to the other, formalizing this hitherto implicit agreement might make both groups more cognizant of each other's accommodation.

Rate of Change

The rate of change of the ethnic composition of the community is an important factor in managing diversity. Rapid change would lead to apprehension, especially on the part of older and less educated citizens [Berry 1990]. If it should occur, it would be necessary to act to reduce the perception of threat and to defuse the possibility of a backlash.

The importance of the rate of change is underlined by the research findings reported in Chapter 9. In the analysis of both the poll data and the data on anti-Semitic incidents, a higher rate of growth in the proportion of the minority

component of the population was shown to have negative effects – in one case, on an attitudinal measure of prejudice; and, in the other case, on a measure of behavioural expression of prejudice.

The anticipated changes in the ethnic composition of Canada's population are detailed in Chapter 6. These changes are expected to be concentrated within the major urban areas. At rates of immigration approximating current levels, these figures imply only a gradual change in the social environment of city-dwelling Canadians and virtually no change for those living outside of the urban centres.

Conclusions

Our work suggests that the multiculturalism approach is preferable to the alternative assimilationist approach, as far

as overall policy orientation is concerned. While empirical documentation of the relative advantages of the multicultural approach is next to impossible, the theoretical arguments are compelling, especially with regard to the facilitation of positive effects of contact. This does not imply that making some components more assimilative in nature – e.g., greater emphasis on learning official languages or on better knowledge of Canadian laws – would be undesirable. The concerns that have been raised by Berry [1990] and McAll [1990] point to the need to improve policy implementation through public education, better funding for front-line community organizations, and ongoing research on and monitoring of levels of tolerance and conflict. An approach that might well prove successful from the public-education perspective would be the formalization of the implicit moral contract between immigrants and the host community.

11 Drawing the Threads Together

We began this report by observing that the fall in the birth rate has triggered much debate about the possibility of using immigration to maintain population growth. That implicitly assumes, we said, that population growth is desirable and that immigration is a satisfactory substitute for natural increase as a source of such growth. We devoted several chapters to the study of the effects of immigration, both on the host country and on immigrants themselves, in an attempt to clarify those issues. In this chapter, we draw the threads of our research together, to decide whether any increase in immigration would be desirable.

The Effects of Immigration: A Summary

It is often said that immigration must be essential, because without it the nation would not exist. Certainly, immigration was needed to start the country, but by the middle of the 19th century, it was playing only a small part in the population growth of eastern Canada. Another wave of immigrants was needed to populate western Canada at the turn of the century, but immigration thereafter became of minor importance in that part of the country as well. Thus it is clear that only a couple of bursts of immigration were needed to launch the process of demographic increase, not sustained inflows.

If the demographic impact of immigration is small, what, then, are its effects on other aspects of Canadian society? Much more than economics must be taken into account when answering that question, as the impact of immigration is not only economic, but also political, social, and humanitarian. These effects, examined in detail in earlier chapters of this report, will only be summarized here.

Economic Effects

Immigration may influence the incomes and job opportunities of existing residents. As we saw in our first chapter, there are many preconceptions, positive and negative, about those economic consequences. While we do not claim to have resolved all the debates, we do claim to have advanced the understanding of the economic effects.

– With respect to per-capita disposable incomes, an increase in immigration has a positive effect, but it is very small. A

doubling of immigration levels from their average over the last 25 years would raise the rate of growth of per-capita disposable income over the next 25 years by about 0.06 per cent per year. Similarly, a decrease in immigration would have a minimal impact on income. This estimate includes both scale and dependency effects.

– The impact of immigration on unemployment is almost certainly negligible, at least over the long term. Even temporary effects seem quite unlikely, unless immigration increases are very rapid.

– Other seemingly plausible economic effects were considered but found unimportant for one reason or another:

1 If immigrants earn more than average, this raises the combined average income of hosts and immigrants, but nothing is added to the income of hosts.

2 The effect of immigration in filling labour market gaps, thereby enhancing efficiency, as compared with the alternative possibility of filling gaps by domestic market adjustments, is almost certainly exceedingly small.

3 Immigrants who bring in human capital in the form of education obtained abroad gain economically from their education, but the balance of the evidence suggests that no benefits accrue to existing residents.

4 Immigrants who bring in monetary capital retain the title to the earnings of their capital, and existing residents therefore are quite unlikely to benefit. There is little reason to believe that such capital is incremental or that it is needed for employment creation.

5 The spillover effect of immigrants is often believed to be positive, but there is little theoretical basis and no empirical data to substantiate this view; and there is some empirical evidence against it.

Political Effects

The second effect of immigration is on the size and power of the nation and on other collectivities within it, notably the provinces and the major municipalities. These effects are also reasonably clear-cut.

- If immigration is either left at its average level of the past 20 years or lowered, Canada as a whole will remain a small nation. Raising immigration to levels somewhat above those experienced in the peak postwar years of the 1950s could bring Canada closer to the middle rank of powers, as judged by either total population or total gross national product.
- The relative distribution of population and power among the provinces is not very sensitive to immigration levels. Ontario, British Columbia, and Alberta will gain in relative population in the years ahead, whatever the immigration scenario, while Quebec, the Atlantic region, Saskatchewan, and Manitoba will lose. Quebec, Manitoba, and Newfoundland, unlike the other provinces, will actually experience declines in absolute population if immigration is not maintained.
- The concentration of population in the three largest metropolitan centres – Toronto, Montreal, and Vancouver – will become slightly greater with more immigration, slightly smaller with less. Nevertheless, the effects will be far from dramatic, contrary to popular perception.

Social Effects

The third effect of immigration is in changing the kind of society we have. Most future immigrants will be culturally and ethnically different from previous immigrants and from native-born Canadians; a high proportion of them will belong to visible minorities. It is easy to calculate the extent to which immigration changes the proportion of ethnically and visibly different minorities. It is more difficult to assess how tolerant Canadians will be of those changes, and what value attaches to the concomitant increase in diversity.

Changes in the Ethnic Profile

Even if there is no change in immigration policy, the ethnic mix will undergo a significant change. At the present time, in Canada as a whole, about one person in 20 is non-European or nonaboriginal. In Toronto and Vancouver, the proportion is about one in nine. These proportions will remain stable only if immigration is eliminated altogether. If recent historic rates of immigration are maintained, the proportions will rise considerably over the next 25 years – to one in 10 nationally and to one in five in Toronto and Vancouver. With a doubling of immigration from its average level in the past 25 years, the picture would change even more. About one Canadian in seven would then be a member of a visible minority, with larger changes than average in Toronto and Vancouver, where approximately one person in four would belong to a visible minority.

Tolerance and Prejudice

A key question is whether Canada is tolerant enough to accept an increase in immigration, with resulting growth in the proportions of visible minorities, without a significant increase in social tensions. Our research suggests that tolerance is probably high enough. This optimistic conclusion is based on four complementary strands of research: an analysis of almost all of the major public-opinion surveys carried out in the last 15 years; a study of special data on racial incidents produced by the B'nai Brith League of Human Rights, as a test of the general theories of prejudice; a survey of job discrimination in Toronto in 1989, replicating a 1985 study; and an examination of census data for 1986 to discover whether discrimination exists in the pattern of earnings. Some particularly important findings are:

On the Positive Side

- Prejudice has been trending slowly downward over the last 15 years, and tolerance upward.
- Tolerance tends to be higher where visible-minority immigrants are most numerous, supporting the “contact hypothesis.”
- No systematic discrimination in wages against visible-minority persons can be established from 1986 census data.
- Job discrimination against visible-minority persons in Toronto fell between 1985 and 1989.

On the Negative Side

- Rapid *increases* in the proportion of visible minorities result in increased prejudice.
- High unemployment increases prejudice.
- There could be some recent increase in anti-Jewish incidents.

Viewed as a whole, these research results are very encouraging, but they do not allow us to dismiss the problem. Prejudice may be declining, but it remains a reality in Canada. The severity of the problems of discrimination and violence resulting from this prejudice will depend on circumstances. The most dangerous circumstances appear to be a sudden, large increase in the proportion of visible-minority immigrants, and deep economic recession.

Ethnic and Cultural Diversity

Unchanged or higher immigration will increase ethnic diversity and probably cultural diversity as well. We examined the question of whether greater diversity is desirable, assuming it would be introduced without a significant increase in social tensions. Despite extensive research efforts, no solid evidence was uncovered on whether greater diversity brings net social benefits. The widespread Canadian presumption of such benefits remains unproven (notice that this does not mean it is incorrect).

What we did find was that a policy whereby the host community actively tolerates ethnic and cultural differences makes social frictions less likely than a policy of assimilation. Consistent with this, the host society needs to feel that its values are fully respected by the newcomers, if the greatest possible degree of social harmony is to be maintained. Given these findings, the policy of multiculturalism was evaluated as a generally sound approach to the management of intergroup relations.

Humanitarian Effects

The fourth effect of immigration is on the economic and social welfare of the immigrants themselves. Immigrants better their lot considerably by coming to this country. This is especially true of refugees, but, to a very large degree, it is true of other immigrants as well. Two specific findings of some importance are:

- After a period of adjustment, immigrants earn incomes reasonably in line with comparably qualified Canadians. Since average incomes in the countries of origin are so much lower, on average, than they are in Canada, the presumption is that immigrants benefit greatly, in economic terms, from coming to this country.
- Immigrants with foreign qualifications, from any origin, earn somewhat less than those qualifications apparently warrant; it is not known whether this is because the qualifications are really worth less than they seem to be, or because employers pretend they are or erroneously think that they are.

Recommendations

Before making a recommendation on immigration levels, we note that there is some question whether the amount of immigration can be controlled at all. The pressure from refugee claimants is high and growing; as a result, recom-

mendations about levels might turn out to be purely academic. Nonetheless, we make our recommendations on the assumption that they can be implemented, and that the federal government can control the total number of people entering the country and obtaining refugee status.

The Level of Immigration

Based on our assessment of all four immigration effects combined, we now draw a conclusion about the appropriate level of immigration. This is necessarily a matter of judgment, because the effects are incommensurate: there is no simple way of adding the “apples” of economic effects to the “oranges” of social effects, for example. The problem is especially acute if some effects are good and some are bad. If, for example, the humanitarian effects are seen as good but the social effects as bad, how is one to make a decision? No amount of research can resolve that conundrum, only a judgment call. Even if the effects are all good or all bad – leading logically to a recommendation that immigration be either increased or decreased, respectively – the question arises of how far to go. If the effects are all good, shall we open the doors totally? If they are all bad, shall we close them fast? Again, judgment is required.

After weighing all four effects of immigration along the lines explained below, we judge that immigration should be gradually increased. Accordingly,

- 1 We recommend that immigration be gradually increased above the average levels of the last 25 years, to reach 1 per cent of the population, on a gross basis, by the year 2015. These levels should be reviewed every five years, to verify that the integration of immigrants is being successfully managed.

Among the four factors, the social and humanitarian played a greater role in our decision on immigration levels than did the economic or political.

While Canadians gain economically (in terms of per capita income) from more immigration, the gain is so small that it did not weigh heavily in our recommendation. Nevertheless, nearly every immigrant more than pays for himself/herself in scale economies and in lighter future tax burdens. Refugee claimants who achieve immigrant status are a possible exception, because they cost more to process, but in their case humanitarian considerations also count relatively more.

A most important economic issue is whether immigration causes unemployment. Our research strongly suggests

that it does not, and for this reason we were able to discount its significance as a factor. There is an important caveat, however – namely, that very rapid increases in immigration might raise unemployment temporarily. That possible effect cannot be discounted, and it is one of two main reasons why we counsel that the increase in immigration be a very gradual one.

As the political effects proved to be quite minor, they did not, in the end, have much influence on our recommendation to raise immigration. Canada will not, as a result of any feasible level of immigration, grow enough in national size and economic power for that factor to be an important consideration, even if we were to assume that such growth is desirable. The regional distribution of population and power is also too insensitive to immigration for this consideration to matter much in deciding about immigration levels.

In contrast to both economic and political factors, we consider the social factors to be very important. Recall that an increase in immigration means an increase in the degree of ethnic and cultural diversity. Although there is little evidence one way or the other as to whether greater diversity is socially beneficial, we favour it ourselves. In our opinion, it will make Canada a more interesting and exciting society, and that is a substantial, nonmeasurable advantage. The associated increase in the proportion of visible minorities carries some risk of more social conflict, human nature being what it is. On balance, however, we do not think racial problems will grow much if immigration continues, or even if it is increased. We base that judgment on our research, which shows that the past growth in tolerance, as the proportion of visible minorities has increased, has not been a matter of luck but a consequence of the dynamics of human interactions, when policies are reasonably well designed. So, we are cautiously optimistic that the risk is acceptable, provided that 1) the increases in immigration are gradual; and 2) the unemployment rate is not too high when the increases occur. Our research shows that it is more difficult to successfully integrate large numbers of newcomers without social friction, especially at times of high unemployment; that is a second major reason for counselling gradualism.

Finally, the humanitarian aspect has weighed quite heavily in our recommendation. It would be hard not to recommend an increase when immigrants can gain so much and when Canadians not only do not lose but actually make slight economic gains. We might have felt differently had we evaluated diversity less positively or had we turned up a significantly increased risk of social conflict in our research; as mentioned previously, neither is the case.

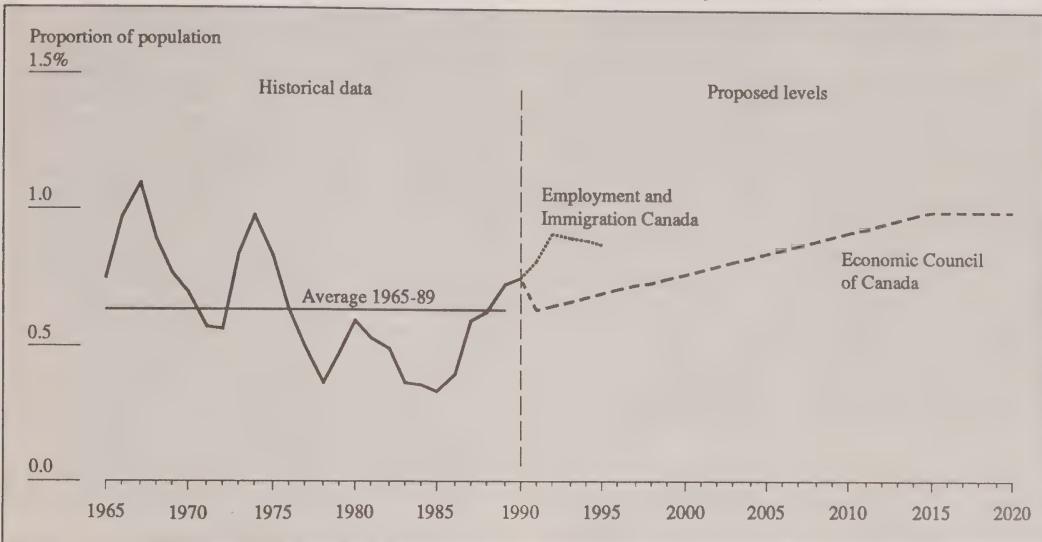
We also considered the question of whether the volume of immigration can be controlled at all. The pressure from refugee claimants is high and growing, and it is such that recommendations about levels could turn out to be purely academic. We faced this issue and resolutely set it aside. Our recommendations are made on the assumption that they can be implemented and that the government of Canada can control the total number of people entering the country and obtaining refugee status. We explained earlier why early action must be taken to control the number of refugee claimants entering the country and to reduce the backlog of undecided claims.

What does our recommendation on the level of immigration mean in terms of actual numbers of immigrants, now and in the future? Gross immigration in the past 25 years has averaged 0.63 per cent of the population (Chart 11-1). That is the benchmark from which our recommendation proposes beginning a gradual expansion, aimed at reaching 1 per cent of the population by 2015. Starting in 1991, that means 168,000 immigrants in that year, building up year by year thereafter to 340,000 by 2015. In 1992, there would be 174,000 immigrants; in 1993, 180,000; and so on. In terms of percentages of the population, Chart 11-1 shows our proposal as the heavy dashed line.

The meaning of our proposal in terms of *net* immigration requires making some assumption about emigration during the years ahead. Based on trends observed during the past two decades, a likely possibility is that emigration will be equivalent to about 0.15 per cent of the population. If that figure holds up in coming years, our recommendation proposes the equivalent of net immigration of 0.48 per cent in 1991, rising gradually to 0.85 per cent by 2015. Over the period as a whole, this would increase the population growth rate by an average of about two thirds of 1 percentage point.

Our recommendation differs in certain respects from the proposal made recently by the federal government. In October 1990, the Minister of Employment and Immigration published an immigration plan for the period 1991-95. That plan is shown in Chart 11-1 as the dotted line. In effect, the Employment and Immigration Canada (EIC) plan extrapolates from the recent high rates of increase until 1992, and then levels off.

Our recommended levels begin from a somewhat lower point but continue climbing steadily to 2015. The government's intentions for the period beyond 1995 have not been stated. However, if its anticipated levels for that period remain in line with the 1995 level, they will be lower than those implied by our recommendation for the period from the middle of the next decade on.

Chart 11-1**Gross Immigration in Canada, 1965-89 (Historical Data) and 1990-2020 (Proposed Levels)**

SOURCE Data from Statistics Canada and Employment and Immigration Canada, and estimates by the Economic Council.

We believe the EIC plan moves ahead too quickly. In our view, a longer-term perspective is appropriate, and that is why we began our projections from the average level of the last 25 years rather than from the level that happened to obtain last year. From both a medium-term and a long-term historical perspective, the 1990 level was relatively high. Moreover, immigration in the last five years (1986-90) has already risen sharply above the levels observed during the preceding decade (1976-85). Further increases of the magnitude contemplated in the EIC plan would make the total increase over the 10-year period from 1985 very large. That runs the risk of provoking social problems, creating temporary increases in unemployment, and perhaps overstressing the capacity of the institutions that handle the arrival and settlement of immigrants. Our research shows that a breathing space is needed. And while we believe that the risks are significantly lower with our proposal, we have also suggested that a review be conducted, every five years, of how successfully the integration of immigrants is being managed.

It is most important to stress that our ultimate goal is the same as the government's – to expand immigration. It is on the timing and speed of the increases that we differ.

While our proposals are less risky in terms of potential social frictions, the risk is not zero. Raising immigration increases diversity, as noted previously, and diversity at any level carries some risk of social conflict. To minimize that risk, we make two further recommendations – one regarding the policy of multiculturalism, and one regarding other policies on race relations.

Multiculturalism

We considered two alternative approaches that could be adopted by host populations towards immigrants – integration and assimilation. Each gives rise to a different set of policies and programs. Integration leads to policies promoting full participation of immigrants in the host society while maintaining their cultural identity. Assimilation, on the other hand, puts pressure on them to give up their cultural identity as the price for acceptance by the host society. As an approach to managing ethnic differences, integration fits the best theory. Multiculturalism – an integrationist approach – is the explicit policy of the federal government through Multiculturalism and Citizenship Canada. The government of Quebec is also moving towards an integrationist approach

and away from what has been perceived by some as an assimilationist policy. The evidence suggests that these strategies have already registered some modest success in reducing the amount of intolerance in Canadian society.

Yet some Canadians resent or misunderstand the multiculturalist approach and the policies that flow from it. It seems to them that multiculturalism demands too much adjustment by Canadians and too little by immigrants. They believe that immigrants should take more responsibility for fitting into the host society. They do not question the immigrants' desire to retain their own culture but believe that those who choose Canada should make a more positive commitment to Canadian values. Some Council members share this belief. Members note that some Canadians are beginning to feel they are expected to be tolerant of immigrants' different ways, but that immigrants are not required, requested, or even expected to adjust to Canadian ways. It almost seems as if Canadianism is undervalued, as if we were not proud of what our society is and what it has to offer.

One way of responding to these signs of resentment would be to change the current policy and adopt an assimilationist approach towards immigrants. But even if an important segment of public opinion did favour such a change, it is far from certain that it would be in the best interests of the country as a whole. Resentment among native-born Canadians might disappear, but we would expect far greater resentment to be created among immigrants. Our research shows that enforced assimilation is likely to prevent the positive effects of contact with immigrants and of mutual accommodation from bearing fruit. If, as a result, it led to increased social friction, it would be hard to find net benefits from the change in policy.

The Council therefore believes that a modest adjustment to the current multiculturalist policy would pay handsome dividends. What is needed is a clearer indication that mutual obligations exist between immigrants and Canadians, with the emphasis on "mutual." Immigrants to Canada should expect, and should be expected, to subscribe to fundamental Canadian values, and to learn English or French. Moreover, they should learn about Canadian society and Canadian values before they decide to emigrate to this country. Canadians should know that all of this is expected of immigrants. And they should also, for their part, be ready to help immigrants to adjust, both individually and through their governments; they should accept willingly those cultural differences which do not conflict with fundamental Canadian values and provide the information that immigrants need to integrate successfully. Immigrants, in turn, should know that this is expected of Canadians.

One way in which knowledge of these mutual obligations might be more widely disseminated and reinforced would be by adopting the Quebec notion of a "moral contract" tailored to Canada's needs. Both immigrants and native-born Canadians would subscribe to such a contract on a voluntary basis. Immigrants would make a commitment, for example, to respect the Canadian Charter of Human Rights and to learn English or French. Native-born Canadians would make a commitment to respect the immigrants' culture and language and to help them in their social and economic integration. The majority of both groups may already have tacitly subscribed to such a contract. We believe, however, that its explicit formulation by national authorities, in consultation with immigrant groups, and its dissemination through public and educational channels, and through nongovernmental organizations, would increase understanding and mutual respect. Accordingly,

- 2** We recommend that a "moral contract" outlining the responsibilities of both hosts and immigrants be developed by the appropriate government agencies, in consultation with immigrant groups, and that its purpose and content be widely diffused. We further recommend that it be used in informing and counselling prospective immigrants before their arrival in Canada.

Combatting Prejudice

Our recommendation on immigration levels implies that the proportion of visible-minority members in the Canadian community will continue to increase. We have also noted that despite evidence of growth in tolerance recently among native-born Canadians, such an increase in visible-minority immigration could lead to a greater frequency of racial problems. We think, therefore, that the multiculturalism method of managing diversity needs reinforcing by a major increase in efforts to combat prejudice. A comprehensive strategy is needed, involving action by both Canadians and the immigrants themselves.

- 3** We recommend that a major strategic initiative be taken to combat racism and foster tolerance. The strategy should be devised and implemented jointly by federal, provincial, and municipal authorities, along with the private sector, including both business and the trade unions, at the initiative of the Minister of Multiculturalism and Citizenship. As well, there should be strong backing for the Minister at the highest level – i.e., from the Prime Minister's Office.

Elements of the strategy that we are recommending should include at least:

- i** Expansion in funding of the existing programs that fight prejudice at all levels, with the necessary

money to be found by a combination of further diversion of funds from support of ethnic activities and a reordering of priorities from other government programs. In 1989-90, about \$55 million was allocated federally to three programs – Employment Equity (Employment and Immigration Canada), Race Relations (Multiculturalism Canada), and the Human Rights Commission. Given that the number of visible-minority persons will rise rapidly, a doubling of this amount over the next decade would be appropriate. Similar proportional increases will be needed at other levels of government.

- ii Increased business, union, community, educational, and media involvement to extend their existing efforts to combat prejudice and promote integration;
- iii More obligation on the part of immigrants to learn English or French, since our research shows that this decreases hostility towards them;
- iv Information to defuse hosts' fears of unemployment and competition from immigrants – fears that our research shows to be unfounded;
- v The avoidance of sharp increases in immigrant inflow, which our results suggest are risky;
- vi Training of immigrants regarding cultural traditions that are inappropriate in Canada, especially with respect to gender equality and attitudes to authority figures such as police, social workers, and – in the eyes of many immigrants – public officials;
- vii Extensive race-relations training for police forces.

Information Needed to Promote Social Harmony

The task of fostering social harmony and managing conflict requires more than present efforts and the simple implementation of the two recommendations above. It also requires a quantum jump in the information available to policymakers. Our next two recommendations are therefore designed to fill two key statistical gaps.

First, our social research indicated a lack of consistent historical information on the degree of social friction in Canadian society. Given that the growing proportion of ethnic minorities, especially visible minorities, will increase the risk of friction in the years ahead,

4 We recommend that more resources be devoted by Statistics Canada, in consultation with Multicultural-

ism and Citizenship Canada and other appropriate government departments, to the task of providing consistent measurement of social friction and its correlates. The choice of measurement methods should be made in consultation with academic faculties in the relevant disciplines.

In implementing Recommendation 4, we urge that the fear of being branded as racist not inhibit the collection of data essential to fight racism itself. It makes little sense, for example, to refuse to ask questions about a person's ethnic origin if that information is needed to develop a tolerance-fostering strategy.

Second, systematic, up-to-date information is lacking on the attitudes of both immigrants and Canadians towards each other and towards the policy of multiculturalism. Such information is very important for managing the integration process successfully and for achieving the optimal design and implementation of the moral contract that we are recommending. Therefore,

5 We recommend that Multiculturalism and Citizenship Canada implement its planned replication of the Berry, Kalin, and Taylor survey of Canadian attitudes to multiculturalism, published in 1977. This survey should be complemented by a survey of immigrant attitudes about native-born Canadians and about their level of satisfaction with life in Canada. Both surveys should be repeated at regular intervals to monitor changes over time.

Immigrant Qualifications

Social harmony also suffers if immigrants earn less than their qualifications and relevant experience warrant, for this creates resentment and increases the potential for conflict. In examining the economic performance of immigrants, we found some tentative evidence that immigrant qualifications might be undervalued. To be fair, the statistical tests do not permit a distinction between rejection of foreign qualifications based on prejudice or ignorance of their value and rejection based on an accurate assessment of foreign qualifications as genuinely inadequate. Nevertheless, to eliminate the problem of ignorance, if it exists,

6 We recommend that the provincial and federal governments increase their efforts at disseminating information on the degree of equivalence or otherwise of foreign credentials and that they enlist the support of professional associations in this endeavour.

We do not favour, at this point, the adoption of legislation requiring the recognition of credentials found to be equivalent, as we believe that any action in this regard

should only be contemplated if a combination of voluntary efforts and the dissemination of information fail to achieve the desired goal.

Language Training

With respect to language training for immigrants, we believe that male and female immigrants should have an equal opportunity to learn either of Canada's official languages. At the moment, it appears to be more difficult for immigrant women – many of whom do not intend to enter the labour force – to obtain language training. This may be due, in part, to insufficient variety and flexibility in the methods of training. If so, some experimentation may be necessary. However it is done, we firmly believe that men and women should have access on equal terms, independently of their labour-market intentions. Therefore,

7 We recommend that men and women immigrants have equal access to language training.

Our second recommendation pertaining to language training relates to its cost. The economic benefits to the host community from immigration are small, and they are reduced even further by the public funding of language training. Publicly funded training has been increasingly provided in recent years. It is true that there are social benefits to the host society if immigrants learn English or French, and those benefits justify some subsidization of language training. That is especially the case for many female immigrants. At the same time, there is often an economic benefit to the immigrants themselves from the learning of English or French. It is not reasonable to expect this to be fully subsidized. Possible models are the financing of postsecondary education under the Canada Student Loan program, and the repayment of the costs of transportation to Canada by certain groups of immigrants. Language training for immigrants should be partially subsidized – and fully subsidized in especially deserving cases – but there should be an expectation that the recipient will pay part of the cost. However, care must be taken to ensure that the administration of the program leads to net cost recovery. Accordingly,

8 We recommend that language training normally be partly charged for, but with a generous system of loans, subsidies, and exemptions in cases where the training is particularly beneficial to the host community rather than to the immigrant himself/herself, or in cases where cash payment by the immigrant or the repayment of loans taken in order to make cash payment would impose undue economic hardship. As in the case of Canada student loans, payment can be made retroactively after the immigrant has acquired a stable job.

Some Council members have reservations about this recommendation, on the grounds that it may result in a higher proportion of immigrants choosing to learn English in Quebec than under the present system. The obvious remedy is to subsidize immigrants in Quebec who choose to learn French more than those who choose to learn English. We suggest a differential subsidy tentatively, without making it a formal recommendation. One problem is the tricky – and evolving – question of the division of responsibilities between the federal government and the provinces in language matters. Another concerns the Charter of Rights and Freedoms: if our recommendation is accepted, Employment and Immigration Canada should enquire whether differential subsidization of language training in English and French is consistent with the Charter. If it is not, other methods should be explored to avoid any differential impact when applying the cost-recovery principle to language training.

Immigrant Classes

Immigrants can be classified into five categories: family class, refugees, independents, assisted relatives, and business class. The last two are usually considered as part of the independent class. Within the category of refugee immigrants, there are those who are selected abroad and those who are self-selected by virtue of having come to Canada and successfully claimed refugee status. Within the business class, there are entrepreneurs, self-employed persons, and investors.

From the economic point of view, our research has not documented any differences in the economic gain to Canadians from different classes of immigrant, with one exception. The exception is the self-selected refugee immigrants – the only case where the economic costs seem likely to outweigh the economic benefits.

It is often thought that immigrants in the independent class yield a greater economic gain to Canadians than those in the family class. That may be so, but we have not been able to test the validity or quantitative importance of this belief. If it were to prove grounded in fact, most of the benefit would take the form of a further reduction in the future tax burden of dependency, from the presumption that independent immigrants pay more taxes. (There are possible minor benefits, to be discussed later on, from the investor category within the independent class.) Furthermore, there do not appear to be any data that would enable us to test whether independent immigrants actually pay more taxes. We do not know, for example, for any year after 1982, whether

independent immigrants earn more on average after their arrival in Canada than do family-class immigrants. This is just one of many elements of information that are essential for assessing whether the acceptance of proportionately more independent immigrants would raise our earlier estimates of the very small economic benefits accruing to Canadians from immigration.

What does seem clear from our research is that any extra economic gains from increasing the relative proportion of independent immigrants could only be tiny. Scale economies are one source of economic gain from immigration in general, but the gains are very small, and almost invariant to the distribution of immigrants among classes. Gains from the effect of immigration in reducing the tax dependency burden are also very small, and any change from increasing the proportion of independent immigrants is most unlikely to make them significantly bigger. Thus it would be quite unreasonable to suppose that increasing the proportion of independent immigrants could alter our earlier conclusion that the economic benefits of immigration to Canadians are minimal.

Matters are different when we look at immigration from the social point of view. There is a strong case, in light of our research findings, for favouring two of the classes over the others. Those are the two classes to whom the point system is applied most rigorously – i.e., independent immigrants and assisted relatives.

The decline in prejudice in Canada during the last few years seems to be attributable, at least in part, to the effects of intergroup contact. The conditions specified as necessary by the contact hypothesis will be met more often when immigrants are comparable in socioeconomic status to the host community and when stereotyping is avoided. The point system is designed to achieve those ends, especially when coupled with the judgment of experienced immigration officers. The system stresses factors such as language, education, and adaptability.

Thus social criteria, considered alone, would lead us to favour independent immigrants and assisted relatives over other groups. Less preferred groups from this point of view would be: the family class; the business class, because those entering under it are subject to much-reduced point requirements as compared with other independents; and self-selected refugees. Refugees selected abroad, however, might also be desirable in terms of social criteria, in that they are rather carefully selected through a process that may produce results similar to those achieved under the point system.

However, we have stressed that four criteria need to be used in deciding about immigration policy: economic, social, political, and humanitarian. While political criteria do not seem to be any more relevant here than economic, humanitarian criteria do matter. Taking the humanitarian aspect into account almost reverses, in fact, the preference ordering among immigrant classes that social criteria give us. It leads to favouring refugees and the family class the most, and the independent and business classes the least, with the assisted relatives in between.

The contrary dictates of the social and humanitarian criteria lead to what sounds at first like a bromide: that some kind of "appropriate balance" should be kept among all classes. They also suggest the need to reconsider the existence of the business class (see the next section). While this may appear to be a rather trite proposal, it is strengthened by our view of past experience. Tolerance has grown in Canada over the past decade. This suggests that the average distribution obtaining during the past 10 years is a useful guide for the future. The only reservation we would make is that a rapid clearing of the backlog of refugee claimants, which we strongly favour, may require some temporary violation of this principle. That being understood,

9 We recommend that the balance among immigrant classes be kept close to the average values obtaining in the last 10 years.

Data on the distribution by immigrant class are readily available for the three major classes (family, refugees, and independents). From 1980 to 1989, 39 per cent of immigrants were of the family class, 18 per cent were refugees, and 43 per cent were independents. The Minister's plan calls for these figures from 1991 to 1995 to average 37 per cent, 22 per cent, and 41 per cent, respectively. Given that we, like the Minister, wish to accelerate the process of clearing the refugee-claimant backlog, we find this planned distribution to be quite acceptable. It is well in the spirit of our recommendation, which of course applies to our own, much longer time horizon to 2015.

The Point Selection System

By and large, we consider the current point selection system good. It helps to maintain a well-balanced intake from the social point of view, and it provides a leavening of adaptable, mobile immigrants. We have only two reservations about it, as a result of our research. One concerns the degree of preference given to business-class immigrants; the other, the weighting given to various occupations.

Business-class immigrants are subject to less stringent point requirements than other independent immigrants. The question arises whether such discrimination can be justified. We doubt it.

There are three subcategories in the business class: investors, entrepreneurs, and self-employed persons. We noted earlier that the benefits from having a special category for the investor-class immigrants are not obvious, and we explained why in detail. A major reason is that investors retain title to their investment and obtain its yield, not the hosts.

Nevertheless, we acknowledge that when there are occasional pockets of capital shortage, they might be overcome by careful use of the immigrant-investor program. The prospect of the availability of a visa to Canada might make the funding of such projects attractive to potential immigrant investors, and there would then be some small benefit to the host society. We are not certain, however, that the present administration of the class is restricted to cases that meet the rigorous criteria, detailed earlier, that need to be met in order for benefits to the host community to be achieved. Some cases may amount only to queue-jumping by rich immigrants, which would be discriminatory and distasteful. Accordingly,

- 10** We recommend that the operation of the investor class of immigrants be carefully monitored over the next few years, to determine whether it induces investment to occur in worthwhile projects that would not otherwise find funding and whether it creates a net benefit to the host society, as measured by the return on the investment.

Entrepreneurs and the self-employed are the other business-class immigrants. There is no general shortage of Canadian entrepreneurs and self-employed persons that would justify giving these immigrants categories special entry privileges ahead of other independents. Consideration should therefore be given to exercising tighter control over these categories, or even to abandoning them. We do not wish to discriminate against business-class immigrants – we are quite emphatic about that. But we urge that they be treated in the same way as other independent immigrants unless special advantages from not doing so can be solidly demonstrated.

One other aspect of the selection system warrants discussion in light of our research results. It is usually impossible in the present state of the art of economic forecasting to determine reliably enough for immigration policy which occupations are in shortage. Moreover, the net economic gains from using immigration to combat shortages, even when forecasting can successfully be done, are minuscule

when care is taken to consider not only the advantages to employers and consumers, but also the disadvantages to workers in the particular occupations overrepresented in terms of immigrant intake. The exceptions to these generalizations are rare enough that it would be a mistake to make systematic use in the selection process of procedures based on the putative *economic* advantages of particular occupations. We were thus very happy to see, in the five-year immigration plan announced in October 1990, that a partial recognition of this concern is now emerging. The government announced plans to eliminate the distinction between open and closed occupations, with “rare exceptions.”

The new policy may not go quite far enough. It is still planned to give priority to certain occupations if they are identified as being in shortage by “consultation with the provinces and the private sector.” We see a place for this, but it should be an exceptional place, when a shortage is so obvious – and the benefits from overcoming it so great – that no one can doubt the merits of using immigration for that purpose. We caution that this system of giving a point preference to certain occupations should not be over-used.

Occupation does matter in selection, but our results suggest that it matters more for social reasons than for economic ones. A balance across occupations is needed to avoid stereotyping and to maximize the chance of integrating immigrants without social conflict. The risk of social conflict will be reduced if interactions between native-born Canadians and immigrants of the same occupational status are as widespread as possible. Consequently,

- 11** We recommend that in determining what points should be allotted for occupation or whether points should be allotted at all, greater importance be given than at present to the need to obtain a balanced intake across all occupational groups.

The Location of Immigrants

As we proceeded with our work, many people expressed concern that immigrants go disproportionately to certain provinces – especially Ontario and British Columbia – and to metropolitan centres. Our data suggest that this may not be as serious a problem as is sometimes thought. We did not find that the distribution of the population among the provinces was very sensitive to varying immigration scenarios. The relative size of Toronto, Vancouver, and Montreal was more sensitive, but not dramatically so. Moreover, our research reveals no particular economic advantage to having immigrants more dispersed rather than less. While the research on the social side does suggest that

some benefits might accrue from more widespread dispersal, it does not show any evidence of costs associated with the current patterns of settlement. Since immigrant adaptation is facilitated by the presence of an established community of the same ethnic origin, we do not feel a recommendation to change the overall regional distribution of immigrants would be justified at this point. However, particular incentives – such as those sometimes provided to medical personnel to go to remote areas – are acceptable in special cases. Another solution would be to widen the possibility of community sponsorship of refugees to immigrants in general. That would be a particularly appropriate option for remote communities, which may not appeal to immigrants because they do not offer support groups of their ethnic origin. Those points made, we make no general recommendation regarding location of immigrants, and do not feel that one is necessary.

Conclusions

Immigration offers a rare chance for a policy change where everyone can gain. Those already here gain a little more real income, a more excitingly diverse society, and the satisfaction of opening up to others the great opportunities that living in Canada gives. Among those who come, some gain safety from persecution, some gain freedom from want, some gain a secure future for their children, and nearly all become economically better off.

At the same time, we must be careful. Canadians have no special exemption from the virus of prejudice and intolerance. Infection can be conquered, if we work at it and, above all, if we are generous about raising immigration but miserly about how quickly we do it. Cautious expansion should be our watchword.

Appendices

A International Cross-Section Analysis: The Regression Equation

The equation measuring the combined effect of population size, capital, technology, and land was as follows:

$$Q = CK^k T^t A^{a_1} e^{a_2 A} P^{p_1} e^{p_2 P} \quad (1)$$

and the estimated version was:

$$Q = 5.0 K^{.39} T^{.26} A^{.02} e^{-.05A} P^{.06} e^{-.0006P} \quad (2)$$

where

Q = gross domestic product per capita;

K = gross capital investment per capita (as a proxy for capital stock);

T = telephones per capita (as a proxy for technology);

A = arable land area per capita;

e = base of natural logarithms, 2.71828; and
 P = population of country in millions.

All of the other symbols in equation (1) are constant coefficients, whose estimated values are shown in equation (2).

As noted earlier, we estimated this equation using a large amount of annual data covering 68 countries (including Canada) and the period 1960-84. We would have liked to include numerous other variables that should be important, according to economic theory – e.g., education per capita, participation rates, and so on – but the pertinent data were not available to us. Despite the limited number of variables, the equation performed very well, by the usual standards applied; more specifically, $R^2 = 0.94$, and all of the variables included tested at 1 per cent or better.

B Scale Economies in Agriculture

In the Council's recent study of Prairie agriculture [Auer 1989], initial estimates indicated that large-scale operations were more efficient than smaller ones. The standard practice among economists is to measure the degree of scale economies or efficiency from scale effects by a number, called the "coefficient of returns to scale." The standard value of this number, when firms of all sizes are equally efficient, is 1.0. If the number exceeds that value – if it is, say, 1.1 or 1.2 – it means that large firms are more efficient than small ones; the reverse is true if the coefficient is below 1.0. For Prairie agriculture, the early results showed that returns to scale ranged from 1.22 in Manitoba to 1.33 in Alberta. Estimates of similar magnitude were derived from data of the 1981 census [Auer 1989, Table C-10]. Both sets of estimates were based on a comprehensive cross-sectional analysis of some 130,000 "census farms." At first, the results served to imply that Prairie farmers operate under conditions of increasing returns of scale.

Further analysis showed, however, that these estimates vary with the type of farm, the degree of provincial specialization, and many other factors. Returns to scale were lowest on grain farms, higher on livestock and speciality

farms, and highest on mixed farms. Saskatchewan farmers specialized in grain production and farmed larger acreages than Alberta farmers who specialized in livestock production [Auer 1989, Tables 3-2 and 3-3]. That difference explained, to a large extent, why scale returns were lower on farms in Saskatchewan than in Alberta.

Moreover, a large proportion of farms – nearly 40 per cent – were marginal operations with gross sales of less than \$20,000, together producing less than 10 per cent of Prairie farm output. These small farms had little capital and used their limited resources very inefficiently. Some of the owners had sufficient off-farm income to compensate for the shortfall from their marginal farm operation; others did not.

When these and certain other aspects of production were taken into account explicitly, the scale estimates for Prairie farms dropped substantially. For Saskatchewan farms they declined, on average, to 1.02; for grain and livestock farms, they fell even lower – to 0.98 and 0.92, respectively, indicating constant or possibly even slightly diminishing economies of scale.

C Economies of Scale in Manufacturing

In an early Council study of scale and specialization in manufacturing, Daly et al. [1968] found that the size of the plant was on average smaller in Canada than in the United States, where plants tended to be more efficient. In the chemical industry, for instance, plants were often too small or too scattered to capture the economies of scale of the larger U.S. plants. They noted, however, that plant size was not the only significant factor in productivity differences between the two economies, nor was it the only factor for which the size of the domestic market counted. The specialization of production through time within a given plant was sometimes more important. The length of production runs – associated with the degree of specialization – turned out to be “not only an important but also a pervasive factor adversely affecting costs and productivity in manufacturing in Canada” [Daly et al. 1968, p. 23]. Canada’s market was thought to be too small – and production runs, too short – to exploit the “prevailing economies of scale.” In the consumer-appliance industry – washers, dryers, refrigerators, ranges, freezers, and so on – U.S. production runs were usually about 10 times as long as Canadian runs, while costs, despite higher wages, were about 15 per cent lower in the United States. In the tire industry, too, Canadian productivity performance was poorer – and costs were higher – than in the United States. Where the typical U.S. plant produced only 125 different types, a Canadian plant of the same size produced some 1,700 types.

Their findings were based on a survey of 44 companies in eight of Canada’s 20 major manufacturing industries. It excluded some major (two-digit) manufacturing industries, such as the food-processing industries, the agricultural-implement industry, and the auto industry.

In a subsequent Council study of Canada-U.S. productivity differences, West [1971] covered all manufacturing industries in the aggregate and concluded that economies of market size mattered. The critical factor was not the size of the establishment but the specialization of production among establishments. Access to larger markets could lead through this to substantial productivity improvements by increasing the degree of specialization.

Other economists have argued that Canadian manufacturing does have suboptimal plants. Using engineering data, Eastman and Stykolt [1967] specified the minimum effi-

cient scale for 14 manufacturing industries in Canada and found that Canadian industries usually operated below it.

Using a similar definition for suboptimal plants – the scale of operation beyond which the unexploited economies were considered insignificant – Scherer et al. [1975] compared the manufacturing industries of Canada (and other countries) with the “best-current-practice” plants of the United States. They estimated that the output of the average Canadian plant was not quite 70 per cent of its U.S. counterpart [p. 68].

Fuss and Gupta [1981] quantified, in addition to plant size and market size, the cost savings that could be expected from economies of scale. They examined the cost/scale relationship by comparing the unit costs of production for 91 Canadian industries, across plants of different sizes in different years.

They concluded that their cost-function estimates were superior to alternative engineering estimates and to the traditional estimates of survival rates. Applying the same cost-function approach to a sample of 67 industries that covered four fifths of Canadian manufacturing output, Gupta [1979] again confirmed empirically the existence of economies of scale.

The evidence is thus very strong that if manufacturing plants could become larger, operate at larger volumes, or specialize more (either through time or via larger production runs, or across different plants), then the average efficiency across the Canadian manufacturing industry could be increased.

The frequent comparisons with the United States, and theoretical reasoning concerning the role of market size in influencing the structure and degree of competitiveness of oligopolistic industries, together suggest that an expansion of the absolute market size would bring such changes about. It would result in an increase in industry-wide efficiency.

That evidence aside, some direct estimates exist of the size of the possible efficiency effect of larger scale across the industry as a whole. In recent studies of the productivity performance of Canadian manufacturing industries – Fuss and Gupta [1981], Fuss and Waverman [1981, 1986], Rao and Preston [1984], Daly and Rao [1986], and Robidoux

and Lester [1988] – estimates of returns to scale for the industry as a whole ranged from 0.95 to 1.18, implying a range of returns to scale that spread between “slightly diminishing” and “substantially increasing.” Some of the estimates were derived by production-function analysis and others by the cost-function approach; some were based on cross-sectional data and others on time-series data. Some were based on gross output and others on “added-value.” All five sets provided scale estimates for the 20 major (two-digit) manufacturing industries both individually and for the manufacturing sector as a whole. In most cases, the scale estimates of production economies were higher than those of cost economies of scale, and the time-series estimates

were higher than the cross-sectional estimates. Nevertheless, there is a rough measure of agreement among all of the various studies.

We conclude that productivity gains from scale economies exist but are not very large. At the aggregate level of all manufacturing, the results cited above must be adjusted for comparability. When that is done, the estimates range from 0.95 to 1.06, with a median value of 1.03. That means that a doubling of manufacturing output could be expected to improve productivity in Canadian manufacturing typically by 3 per cent, with occasional improvements of as much as 6 per cent [Rao 1988, pp. 61-63, 71].

D Regression Analysis: Beta Values and Significance Levels

The following tables present the results of the regression analyses of individual survey questions (Tables D-1 to D-7), of the composite measures representing the three factors examined (Tables D-8 to D-10), and of the anti-Semitic incidents reported to the B'nai Brith League of Human Rights (Table D-11).

In these tables, the "multiple R" (with a maximum value of 1.0) is an index of the degree to which the scores for the measure can be predicted from the knowledge of other variables, such as the respondent's level of education, age,

gender, and so on. The symbol df stands for "degrees of freedom," which is a number corresponding to the amount of variation possible in the value of the multiple R, given the size of the sample.

The beta values are indices of the amount of predictive power associated with each of the predictor variables. Generally, the variables are coded in such a way that a positive beta value means that higher levels of that variable will produce higher scores for the measure being predicted, while a negative beta value means that an inverse

Table D-1

Beta Values and Significance Levels in Time Series Equations for the Question, "Would You Increase Immigration?"¹

	Anglophones	Francophones
Multiple R	0.23***	0.22***
df	11; 3,675	8; 1,676
Level of education	0.15***	0.19***
Gender	-0.03*	-0.06**
Age	-0.01	0.08*
Community size	0.09**	0.04
Unemployment rate (UR)	-0.06**	-0.02
Change in unemployment (CU)	0.02	-0.07**
Proportion (%) of visible minorities (VM)	-0.31**	-0.07
VM × VM	0.25** (0.03)	
Change in the proportion of visible minorities (CVM)	0.02	0.05
VM by CVM	(-0.71***) (0.04)	
VM by UR	(-0.05) (-0.05)	
VM by CU	-0.06** (0.02)	
CVM by UR	(-0.02) (-0.08)	
CVM by CU	- (0.04)	
Year	0.10*** (-0.05†)	

¹p < 0.10.

^{*}p < 0.05.

^{**}p < 0.01.

^{***}p < 0.001.

1 Numbers in parentheses represent the beta value if entered into equation.

SOURCE Estimates by the Economic Council, based on data from Gallup surveys.

Table D-2

Beta Values and Significance Levels in Time Series Equations for the Statement, "There Is Too Much Immigration"¹

	Anglophones	Francophones
Multiple R	0.29***	0.34***
df	10; 8,538	10; 2,854
Level of education	0.27***	0.32***
Gender	-0.02†	-0.05**
Age	-	0.09***
Community size	0.11***	-0.03
Unemployment rate (UR)	-0.05**	-0.09***
Change in unemployment (CU)	0.02*	0.02
Proportion (%) of visible minorities (VM)	-0.13*** (-0.02)	0.27** (-0.02)
VM × VM		
Change in the proportion of visible minorities (CVM)	0.05	-0.24**
VM by CVM	(-0.06)	(-0.01)
VM by UR	-0.05*	(-0.04)
VM by CU	-	(0.01)
CVM by UR	(-0.03)	(-0.01)
CVM by CU	-	-0.05*
Year	0.04***	-0.09***

¹p < 0.10.

^{*}p < 0.05.

^{**}p < 0.01.

^{***}p < 0.001.

1 Numbers in parentheses represent the beta value if entered into equation.

SOURCE Estimates by the Economic Council, based on data from Environics surveys.

relation exists between the predictor variable and the measure. In Table D-1, for example, the beta value of -0.06 reported in the "Anglophones" column for the unemployment rate as a predictor of responses to the question, "Would you increase immigration?," means that higher levels of unemployment are associated with lower scores for that question – that is, with more negative attitudes towards increasing immigration.

Gender is coded so that a positive beta value means that female scores are higher than male scores, while a negative value denotes the reverse. The term "VM × VM" stands for the quadratic form of the proportion of visible minorities and represents any tendency for the effects of this variable to change in strength as its level diminishes or increases. The various terms with "by" in the middle (e.g., "VM by CVM") represent interactions – that is, the joint

effects of two variables. In Table D-2, for example, the interaction between unemployment levels and the proportion of visible minorities (represented by the line "VM by UR") on scores on the statement about "too much immigration" results in a negative effect of unemployment levels on responses that is stronger when the proportion of visible minorities is larger.

The asterisks next to various values of beta or R represent the probability that the statistic would obtain a value that large by chance. For example, in Table D-1 the three asterisks next to the beta value for "year" in the "Anglophones" column indicate that the value of 0.10 would occur by chance in less than one in 1,000 cases and thus is far more likely to represent a real effect (in this case a positive trend over time) than to be the result of sampling error.

Table D-3

Beta Values and Significance Levels in Time Series Equations for the Statement, "There Are Too Many Races and Cultures"¹

	Anglophones	Francophones
Multiple R	0.27***	0.29***
df	10; 2,286	8; 507
Level of education	0.23***	0.29***
Gender	-0.05*	-0.08†
Age	-0.02	0.11*
Community size	-0.06	0.03
Unemployment rate (UR)	-0.07**	-0.02
Change in unemployment (CU)	0.02	-0.01
Proportion (%) of visible minorities (VM)	0.38*	-0.03
VM × VM	-0.28*	(-0.09)
Change in the proportion of visible minorities (CVM)	-0.08	0.03
VM by CVM	(-0.08)	(0.13)
VM by UR	(-0.04)	(-0.07)
VM by CU	(-0.03)	(0.06)
CVM by UR	(-0.05)	(-0.03)
CVM by CU	(-0.03)	(0.04)
Year	0.05*	(0.01)

†*p* < 0.10.

**p* < 0.05.

***p* < 0.01.

****p* < 0.001.

1 Numbers in parentheses represent the beta value if entered into equation.

SOURCE Estimates by the Economic Council, based on data from Decima surveys.

Table D-4

Beta Values and Significance Levels in Time Series Equations for the Statement, "Anyone Should Be Able to Immigrate"¹

	Anglophones	Francophones
Multiple R	0.10***	0.21***
df	9; 7,771	9; 1,921
Level of education	0.01	0.01
Gender	0.03**	0.08***
Age	-0.05***	0.01
Community size	0.09***	0.11**
Unemployment rate (UR)	0.05**	0.05
Change in unemployment (CU)	–	-0.03
Proportion (%) of visible minorities (VM)	-0.06	0.16
VM × VM	(0.08)	-0.20*
Change in the proportion of visible minorities (CVM)	0.06	-0.16*
VM by CVM	–	(0.76**)
VM by UR	-0.09***	–
VM by CU	–	(0.03)
CVM by UR	(0.11)	(-0.01)
CVM by CU	(-0.01)	(0.04)
Year	(-0.02†)	(-0.01)

†*p* < 0.10.

**p* < 0.05.

***p* < 0.01.

****p* < 0.001.

1 Numbers in parentheses represent the beta value if entered into equation.

SOURCE Estimates by the Economic Council, based on data from Decima surveys.

The conclusion that chance is not responsible for the value obtained is what is known as "statistical significance"; such a conclusion is conventionally made when the chance probability is less than one in 20 times – that is, 0.05. When

the beta value has a chance probability of greater than one in 20, we conclude that there is no evidence that the variable in question has any effect on the scores for the measure.

Table D-5

Beta Values and Significance Levels in Time Series Equations for the Statement, "More Services Should Be Provided for Immigrants"¹

	Anglophones	Francophones
Multiple R	0.09***	0.20***
df	10; 5,502	8; 1,386
Level of education	0.04*	0.04
Gender	0.03*	0.12***
Age	-0.02	0.12***
Community size	0.09***	0.06
Unemployment rate (UR)	-0.02	0.02
Change in unemployment (CU)	0.01	-0.05†
Proportion (%) of visible minorities (VM)	-0.19*	0.02
VM × VM	(-0.09)	(-0.15)
Change in the proportion of visible minorities (CVM)	-0.09*	-0.15*
VM by CVM	0.18*	(-0.10)
VM by UR	(0.02)	(-0.02)
VM by CU	-0.05**	(-0.04)
CVM by UR	(0.05†)	(-0.01)
CVM by CU	(0.01)	(-0.07)
Year	(-0.03†)	(-0.01)

† $p < 0.10$.

* $p < 0.05$.

** $p < 0.01$.

*** $p < 0.001$.

1 Numbers in parentheses represent the beta value if entered into equation.

SOURCE Estimates by the Economic Council, based on data from Decima surveys.

Table D-6

Beta Values and Significance Levels in Time Series Equations for the Item, "Support Pressure on South Africa"¹

	Anglophones	Francophones
Multiple R	0.23***	0.40***
df	9; 1,172	9; 346
Level of education	0.14***	0.22***
Gender	-0.01	-0.01
Age	-0.10**	-0.12*
Community size	0.09*	-0.05
Unemployment rate (UR)	-0.02	-0.11†
Change in unemployment (CU)	-0.04	0.03
Proportion (%) of visible minorities (VM)	0.07	1.40***
VM × VM	(-0.35†)	-0.55***
Change in the proportion of visible minorities (CVM)	-0.10	-0.80**
VM by CVM	(-0.37†)	(-0.05)
VM by UR	(0.10)	(0.06)
VM by CU	(0.03)	(-0.04)
CVM by UR	(0.13†)	(0.03)
CVM by CU	(0.03)	(-0.02)
Year	0.07*	(-0.02)

† $p < 0.10$.

* $p < 0.05$.

** $p < 0.01$.

*** $p < 0.001$.

1 Numbers in parentheses represent the beta value if entered into equation.

SOURCE Estimates by the Economic Council, based on data from Gallup surveys.

Table D-7

Beta Values and Significance Levels in Time Series Equations for the Item, "Approve of Interracial Marriage"¹

	Anglophones	Francophones
Multiple R	0.35***	0.28***
df	10; 1,780	8; 871
Level of education	0.09***	0.07†
Gender	—	-0.02
Age	-0.27***	-0.15**
Community size	-0.12**	0.07
Unemployment rate (UR)	0.06†	0.10*
Change in unemployment (CU)	-0.03	0.03
Proportion (%) of visible minorities (VM)	0.51***	0.09
VM × VM	-0.38***	(-0.09)
Change in the proportion of visible minorities (CVM)	-0.01	-0.18*
VM by CVM	(0.40)	(-0.12)
VM by UR	(0.06)	(0.10)
VM by CU	(-0.01)	(-0.01)
CVM by UR	(0.04)	(0.07)
CVM by CU	—	(-0.02)
Year	0.07**	(0.07†)

†*p* < 0.10.

**p* < 0.05.

***p* < 0.01.

****p* < 0.001.

1 Numbers in parentheses represent the beta value if entered into equation.

SOURCE Estimates by the Economic Council, based on data from Gallup surveys.

Table D-8

Beta Values and Significance Levels in Analysis of Composite Measure Based on the Quantity-of-Immigration Factor¹

	Anglophones	Francophones
Multiple R	0.64***	0.76***
df	8; 179	7; 43
Level of education	0.59***	0.67***
Gender	0.06	0.01
Age	-0.06	-0.07
Community size	0.20†	0.43†
Unemployment rate (UR)	-0.19*	-0.43*
Change in unemployment (CU)	-0.01	0.12
Proportion (%) of visible minorities (VM)	-0.14	0.43†
VM × VM	(-0.50)	(-3.45)
Change in the proportion of visible minorities (CVM)	-0.11	...
VM by CVM	(-0.54)	...
VM by UR	(-0.28†)	(-0.60)
VM by CU	(0.14†)	(0.23†)
CVM by UR	(-0.16)	...
CVM by CU	(0.09)	...

†*p* < 0.10.

**p* < 0.05.

***p* < 0.01.

****p* < 0.001.

1 Numbers in parentheses represent the beta value if entered into equation.

SOURCE Estimates by the Economic Council, based on data from Gallup, Decima, and Environics surveys.

Table D-9

Beta Values and Significance Levels in Analysis of Composite Measure Based on the Immigration-Management Factor¹

	Anglophones	Francophones
Multiple R	0.53***	0.29
df	9; 188	7; 62
Level of education	0.26***	0.06
Gender	0.14*	0.10
Age	-0.08	-0.16
Community size	0.50***	0.09
Unemployment rate (UR)	0.21†	-0.29
Change in unemployment (CU)	0.10	-0.10
Proportion (%) of visible minorities (VM)	-0.74*** (0.75†)	0.32 (-1.75)
VM × VM		
Change in the proportion of visible minorities (CVM)	0.67*** (0.24)	...
VM by CVM	-0.56*** (-0.04)	(-0.19) (0.47†)
VM by UR		
CVM by CU		
CVM by UR		
CVM by CU		

† $p < 0.10.$

* $p < 0.05.$

** $p < 0.01.$

*** $p < 0.001.$

1 Numbers in parentheses represent the beta value if entered into equation.

SOURCE Estimates by the Economic Council, based on data from Gallup and Decima surveys.

Table D-10

Beta Values and Significance Levels in Analysis of Composite Measure Based on the Tolerance Factor¹

	Anglophones	Francophones
Multiple R	0.68***	0.52**
df	8; 188	7; 53
Level of education	0.41***	0.52***
Gender	0.10†	0.11
Age	-0.52***	0.28
Community size	0.10	-0.17
Unemployment rate (UR)	-0.08	0.41
Change in unemployment (CU)	0.02	0.24
Proportion (%) of visible minorities (VM)	0.31 (0.11)	0.07 (-7.35†)
VM × VM		
Change in the proportion of visible minorities (CVM)	-0.42** (0.23)	...
VM by CVM	(0.20)	(0.90†)
VM by UR	(0.03)	(-0.04)
CVM by UR	(0.16)	...
CVM by CU	(-0.01)	...

† $p < 0.10.$

* $p < 0.05.$

** $p < 0.01.$

*** $p < 0.001.$

1 Numbers in parentheses represent the beta value if entered into equation.

SOURCE Estimates by the Economic Council, based on data from Gallup and Decima surveys.

Table D-11
**Beta Values and Significance Levels in
Analysis of Anti-Semitic Incidents Data¹**

	All types of incident	Violence or threat
Multiple R	0.89***	0.88***
df	6; 37	7; 36
Year	0.41***	0.09
Proportion (%) of the population that is Jewish (PJ)	0.72***	0.91***
Change in the proportion of the population that is Jewish (CPJ)	0.33**	-1.10†
Unemployment rate (UR)	0.05	-0.60*
Change in unemployment (CU)	-0.16	-0.26†
CPJ by CU	0.46***	0.57***
CPJ by UR	(0.18)	1.20*

† $p < 0.10$.* $p < 0.05$.** $p < 0.01$.*** $p < 0.001$.

1 Numbers in parentheses represent the beta value if entered into equation.

SOURCE Estimates by the Economic Council, based on data from the B'nai Brith League for Human Rights.

Notes

CHAPTER 5

- 1 Such ways of testing exist, known as "simultaneous-equations estimation techniques." In our calculations, we used the technique called "two-stage least-square estimation."
- 2 That description may be too sweeping: a slow but worrisome upward trend since the 1950s is observable worldwide. To be strictly accurate, we should say that the mystery, here, lies in the fact that this slow upward trend is not more rapid.
- 3 Harrod's work [1952] gives an explanation in the spirit of Keynesian analysis but requires special parameter values, otherwise it predicts permanent stagnation. No plausible theory of why the relevant parameters should be in the "right" range has been developed, to our knowledge.
- 4 More serious yet, the hypothesis implies a tradeoff between inflation and unemployment that has not adequately withstood empirical testing. If the explanation is correct, however, it implies that immigration will not cause unemployment. Immigration will simply be one of many forces with the potential to cause unemployment, but always nipped in the bud by sophisticated policy adjustment.
- 5 To be precise, this prediction follows from detailed analyses of disaggregated neoclassical growth models of the Solow type. Neoclassical models without this prediction can be devised, but they seem forced. The prediction is a secondary consequence of the automatic mechanism that neoclassical theory calls upon to justify its full-employment prediction. Labour force growth generates profit opportunities, which lead to the entry of new firms in the long run – not to expansion in the size of existing firms, which occurs only in the short run.

CHAPTER 6

- 1 In our "stock" figures, the definition of European origin also includes, for statistical reasons, a small proportion consisting of visible-minority children born in Canada before 1986. Our projections, however, include under "Asian" or "African" origin those children of visible-minority immigrants who were born in Canada after 1986.

CHAPTER 7

- 1 Among the population group aged 25 years and over, university-educated persons accounted for 27.9 per cent in

the case of immigrants, compared with 23.7 per cent for native-born Canadians.

- 2 A recent study [Seward 1988] argues that a large proportion of immigrant women in the clothing industry have had only Grade 10 education or less and that many of them are unable to speak either English or French. The study also reports that a little over a half of those women are from Southern Europe, which suggests that they probably arrived as family-class immigrants rather than as refugees.
- 3 Chiswick and Miller [1988] reported rates of return on education of 2.5 to 3.9 per cent for immigrants and 3.9 to 5.2 per cent for the native-born, using 1981 census data. Note that their study dealt with male immigrants only.
- 4 Chiswick and Miller [1988] found the rate of return on Canadian experience and foreign experience to be 3.2 and 1.5 per cent, respectively.

CHAPTER 9

- 1 To grasp this apparent contradiction, two situations very roughly analogous to Canada in 1980 and in 1990 may be used as illustrations. First, picture a situation in which 50 visible-minority members are interacting with 950 whites and 10 instances of discrimination occur. The per-capita incidence of discrimination weighted by the opportunity to discriminate (which is measured as the proportion of the population comprised by members of visible minorities, equal to .05) will then be $(10/1,000)/.05 = .20$.

Second, picture a situation in which 100 visible-minority members interact with 900 whites and 15 instances of discrimination occur. While the number of instances of discrimination is higher in the latter scenario, rising from 10 to 15, the weighted per-capita rate is lower, falling from .20 to .15 [$(15/1,000)/.10$], and actually representing an improvement in the situation with respect to the average level of prejudice.

- 2 A margin of error is usually expressed as "accurate within X percentage points." This indicates the expected level of accuracy of the results. For example, if 55 per cent of respondents agree with a certain question in a particular survey and the margin of error is said to be within (plus or minus) 3 per cent, this means that one would expect to find that between 52 and 58 per cent of the entire population agree with that question. The size of the margin of error is based on the size of the sample – the larger the sample, the smaller the margin of error.

- There is a further qualification, however. One out of 20 surveys is not expected to achieve that level of accuracy – in other words, in one of 20 surveys the true level of public opinion is expected to fall outside the range. In the example above, therefore, we would say that we are 95 per cent certain that between 52 and 58 per cent of the population agree with the question. Unfortunately, it is impossible to determine whether any particular survey is the one that is out by more than the margin of error.
- 3 A principal-components analysis with a varimax rotation was employed. The number of factors was determined by the "scree test" [Cattell 1957]. The three factors had eigenvalues of 2.76, 1.94, and 1.72.
- 4 The items on which these analyses were performed were: the "would you increase immigration" item (3,687 Anglophone and 1,685 Francophone respondents from six Gallup surveys in 1980, 1982, 1985, 1987, 1988, and 1989); the "there is too much immigration" item (8,549 Anglophone and 2,865 Francophone respondents in six Environics surveys in 1981, 1983, 1986, 1987, 1988, and 1989); the "too many races and cultures" item (2,297 Anglophone and 516 Francophone respondents in two Decima surveys in 1987 and 1989); the "anyone should be able to immigrate" item (7,781 Anglophone and 1,931 Francophone respondents in seven Decima surveys in 1981, 1982, 1983, 1984, 1985, 1986, and 1987); the "more services for immigrants" item (5,513 Anglophone and 1,395 Francophone respondents in five Decima surveys in 1981, 1983, 1984, 1985, and 1986); the "support for pressure on South Africa" item (1,182 Anglophone and 356 Francophone respondents in three Gallup surveys in 1986, 1988, and 1989); and the "approval of interracial marriage" item (1,791 Anglophone and 880 Francophone respondents in three Gallup surveys in 1978, 1983, and 1988).
- 5 Estimates of unemployment rates were obtained from the Statistics Canada Labour Force Survey publications for the years in question. Rates were obtained for each region by age, gender, and level of urbanization. Estimates of the proportion of visible-minority immigrants in each region were obtained from the 1981 and 1986 census database and extrapolated to the years in which the surveys were conducted.
- 6 All analyses excluded respondents whose mother tongue was not English or French. The purpose of these exclusions was to obtain samples that would, as much as possible, represent the native-born majority group's attitudes and level of prejudice.
- This does not imply, of course, that we were not interested in the opinions of the minority-group members. We strongly recognize the need for research on the attitudes of minority groups towards the majority. However, the surveys being analysed here contained questions related to attitudes towards immigration and minority groups, not attitudes towards the majority groups. Since the attitude of minority-group members towards other minority-group members can hardly be construed as a measure of prejudice and since the number of minority-group members in these national surveys was too small to allow for a statistically valid separate analysis of their responses, they were excluded.
- 7 The theory of *symbolic racism* [Sears 1988] argues that prejudice is no longer expressed as much in the form of blatant segregationism and assertions of genetic inferiority but now tends to be expressed through opposition to programs such as affirmative action and school desegregation; that theory would thus tend to support an interpretation of opposition to immigration as an expression of racism. However, the research supporting that theory has tended to find a high level of correlation between measures of symbolic prejudice and measures of the more traditional or blatant prejudice. The current results failed to find any evidence of correlation between the measure based on the prejudice factor and the two immigration-related measures. While the absence of such a correlation is not in itself conclusive evidence, the differing patterns of results would strongly suggest that the items associated with the immigration-related factors are not simply more subtle measures of prejudice. A further reason to doubt the "symbolic racism" interpretation of items associated with the "quantity" and "management" factors comes from the fact that the item measuring support for equal-access legislation (a typical "symbolic racism" item) was associated with the "tolerance" factor but not with either of the other two factors.

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Consultants

- Professor Robert Anderson, Simon Fraser University
"Immigration, crime, and social friction," background paper (May 1990)
- Professor John W. Berry, Queen's University
"Social and psychological costs of immigration and multiculturalism," background paper (June 1990)
- Professor John deVries, Carleton University
"Measuring non-economic aspects of discrimination," background paper (March 1990)
- Professor Guy S. Goodwin-Gill, Carleton University
"Refugee determination in Canada: a comparative approach," background paper (December 1989)
- Professor Frances Henry, York University
"Who gets the work in 1989?," background paper (October 1989)
- Professor R. Kalin, Queen's University
Reviewer *only* of the Immigration Research Report, Chapter 9
- Professor Christopher McAll, University of Montreal
"Le Québec contemporain et l'immigration," background paper (December 1990)
- Professor Gertrud Neuwirth, Carleton University
"Selected characteristics of refugees, family class members, and independent immigrants," background paper (February 1990)

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